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Towards Public Financing of Elections and Political Parties in India: Lessons from Global Experiences

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ABSTRACT

Democracy costs a lot of money. To fight elections and run their routine activities, political parties in India seek donations from all possible sources including “illegal” and “interested” money. This has serious ramifications in preserving the integrity of Indian democracy. An increasing number of countries, meanwhile, have taken the path of public subsidies and direct funding of parties and political activities—aiming to reduce dependence on interested money, equalise political opportunity, and bring greater transparency and accountability to democratic processes. By better targeting state subsidies, countries like Germany and the UK, for example, have made strides in reducing the role of interested money in elections and bringing visible transparency in their electoral politics. While India cannot take a leaf out of these experiences, there is a lot to learn from them. The paper endeavours to study the effectiveness of different public funding models, understand the context of such reforms including the reform ecosystems, identify the variations in implementation, and offer a list of feasible options for India.

INTRODUCTION

Halfway through his demonetisation drive, Prime Minister Narendra Modi called upon political parties to come to a consensus on the issue of public funding of elections in India.¹ The prime minister was referring to the rising costs of elections and the steady influx of ‘black money’ or illegal money into the country’s political system. It is a bitter reality that India’s democratic processes are heavily exposed to illicit financing. This can be gleaned from the fact that nearly two-thirds of political donations of registered political parties are from so-called “unknown” sources.² The associated problems relating to electoral activities fuelled by black money are well known. To reduce the flow of illicit money and infuse adequate supply of ‘white money’ into electoral politics, the Modi government recently announced a slew of reform proposals in the Finance Bill.³ Noteworthy steps include the proposal to reduce cash donations from the current INR 20,000 to INR 2,000; making tax exemption conditional to mandatory filing of income tax returns in time; and floating of electoral bonds. Notwithstanding the many flaws,⁴ these steps do indicate the current government’s serious intent to address issues of illicit funding and help expand clean sources of political finance for parties. However, these fail to tackle the structural issues surrounding political finance in India.

While the success of democracy in a complex and large country with widespread poverty and illiteracy has earned India global respect and applause,⁵ the country’s democratic process is besotted with corruption, and lack of transparency and accountability. The most worrisome trend is the growing role of money in India’s electoral democracy. Arguably, the 16th Lok Sabha Election was the second most-expensive election after the 2012 US presidential elections.⁶ According to a study conducted by the Centre for Media Studies, the figure was a mammoth INR 30,000 crore (approximately US\$5.5 billion).⁷ This estimate is conservative. On an average (anecdotally and based on their own confessions),⁸ candidates fighting a Lok Sabha election spend around INR 5–10 crore to run a decent

campaign. Buying votes by giving cash, alcohol, drugs, and others, is also a widespread practice. The cash seized by the expenditure observers of the Election Commission of India reached record levels in the last elections, with more than INR 150 crore seized from Tamil Nadu alone.⁹

As elections become more expensive, the burden of generating more finances increases for both parties and candidates. Given that the ways and means to raise small contributions are more difficult and their transactional costs still very high in India,¹⁰ the role of “interested money” from corporates has taken prominence.¹¹ Indeed, in India, most of the big political parties are liberally funded by corporate houses.¹² For instance, among the known sources of donation, private business or corporate contribution accounts for a staggering 89 percent of total donations.¹³ This, coupled with the major role played by the state in regulating the economy has resulted in most of the corporate money coming through illegal and undisclosed means, which in turn has resulted in the increasing role of black money in elections and other party activities. Even tax benefits have not proven to be adequate incentives for corporates to reveal their identity as they fear backlash from the parties in power.¹⁴ Thus, cronyism and corruption scandals have become a common trend in India in the recent years. Most of the second tenure of the United Progressive Alliance government was spent fighting the big-ticket corruption scandals, such as the 2G auction, and the coal scam (linked to quid-pro-quo decisions, as was vividly captured in Radia Tape).¹⁵

While cronyism and corruption have had an adverse impact on the quality of democracy and nature of governance in the country,¹⁶ the growing role of money has negatively affected competition at the level of candidature within parties. Due to the increasing need for money, most candidates chosen by parties are individuals who can finance themselves and do not need to rely on party funds for campaigning. This has led to the rise of wealthy candidates—and in certain cases, even criminals—contesting elections.¹⁷

Finally, given that party finances are controlled by a few dynasts and regional *satraps* (local area chiefs) across India, there is limited internal democracy in these parties.¹⁸ With the growing role of money in elections, most parties—with some exceptions—select rich candidates or ones with the ability to raise funds to fight elections. This has often led to situations where criminals self-select themselves as candidates while meritorious or talented candidates find it hard to participate in the democratic processes.¹⁹ In short, India’s democracy faces a credibility crisis, owing to the many issues, including the challenges surrounding political finance.

To be sure, the problems associated with political finance are not unique to India. Nearly all democracies, including established ones, face challenges (in varying degrees) with regard to money in politics.²⁰ The concoction of money, politics, and corruption is as old as the origin of democracy in ancient Greece. Documenting the trends in then Athenian direct democracy, Greek historian Plutarch observed, “The buying and selling of votes crept in and money became a feature of the elections. But afterwards, bribery affected even courts and camps, and converted the city into a monarchy, by making armies the utter slaves of money. For it has been well said that he first breaks down the power of the people who first feasts and bribes them.”²¹

In contemporary history, the growing role of money in politics and its associated problems feature in news every day in almost all democracies around the world.²² The “Recruit” scandal in Japan, for instance, or the sensational “Westminster” scam in Britain, and the famous “Watergate” scandal in the US, and the series of scams related to election pay-offs in Brazil greatly contributing to the impeachment of Dilma Rousseff²³ — all exemplify how both established and emerging democracies are rocked by problems of political finance.²⁴ Further, it is well documented how election-based political corruption has damaged the democratic governance in many European democracies, particularly Italy, Greece, France, Spain and Belgium. The situation is even more alarming in emerging democracies as graft, kickbacks and cronyism act as major roadblocks for growth and

development. Transparency International rates Indonesia, Mexico, Russia, Malaysia and the Philippines poorly on corruption index and election-related kickbacks.²⁵ Vote-buying is a common practice that many advanced democracies experience.²⁶ Therefore, all democracies—both advanced and emerging—are routinely plagued by the challenges emanating from political finance that impact the quality of democracy and public confidence in the integrity of the political process, equitable party competition, principles of transparency and accountability, as well as the broader goals of growth and good governance.²⁷

To reduce dependency on big money and to encourage participation from newer and aspiring politicians in the democratic process, many democracies have embraced broad-based reforms in political finance. Some democracies, for instance, have sought to establish strong disclosure norms, institute contribution, spending limits, ban on corporate donation, campaign time limits, and other strategies.²⁸ However, the most common electoral finance reform in many countries in the recent decades has been the introduction of a system of public funding of political parties, whether full or partial.

Public financing of elections and parties (and in some cases, candidates) is a recent development in most democracies, although the concept is over a century old. Incidentally, the Latin American countries were the first to introduce state subsidies for political parties. It was Uruguay that introduced state subsidies in 1920s, which was later borrowed by Costa Rica and Argentina. Now, more than seven Latin American democracies have state funding.²⁹ Germany introduced state funding in the 1950s, a model that has now been copied by many democracies including the UK and France. In the case of the US, public financing of political parties took shape during the tenure of President John F. Kennedy in 1960s. Public funding of the presidential general election was formally introduced in 1966, and after the Watergate scandal, the concept gained serious traction in the US. In short, public financing of political parties and elections seems to be the most common reform across

the world. As many as 116 countries (68 percent) have introduced direct public funding to political parties.³⁰ A majority of European countries (86 percent) provide state subsidies to political parties, with Germany and the UK being the lead examples.³¹

In the following section, this paper provides a theoretical and normative basis for public funding of electoral politics. This is followed by a short analysis of the typologies of public funding. The third section deals with the nature and impact of public subsidies around the world. In the last section, the paper documents the specific lessons that India must learn from these global experiences.

PUBLIC FUNDING OF ELECTORAL POLITICS: THEORIES AND THE CONCEPT

While the issue of funding is central to the problems facing party democracy,³² there is a relative paucity of theoretical literature compared to other sub-fields. One of the popular propositions regarding public financing is its contribution to anti-corruption efforts. The anti-corruption theorists³³ rest their claim on intuitive and historically verifiable indicators, where election contributions (in certain instances) including legal ones function as a kind of legalised bribery that constrains or animates political actors from acting independently.³⁴ This is the key reason why political finance analysts push for public financing of elections: to mitigate “the importance of private money” by keeping “the big money out of politics.” Public finance protects the political process from direct, quid-pro-quo kickbacks or corruption.³⁵ State funding for them is an affirmative system—not just a restrictive one—that seeks to prevent corruption, promotes diversity among candidates, and acts as public service to the entire society rather than only to those who contribute to the kitties of parties and candidates.³⁶

The original theoretical justification of political finance regulation, especially the public funding proposal, is based on the normative goal of

“equalising influence,” an effort that goes on to ensure that certain powerful groups or individuals do not exercise undue influence in electoral processes.³⁷ According to its proponents, political equality propagates the concept of “equal political influence,” meaning no citizen should have more power over the political process than other citizens. This implies that wealth or money should not translate into more control over the political process, or conversely, poverty should not severely diminish one’s political power. The principle of “one person, one vote” is a natural expression of the belief in the intrinsic equality of citizens.³⁸

Political philosophers and democracy scholars, such as John Rawls, Robert Dahl and Ronald Dworkin, call for public funding to preserve equal political influence and prevent well-heeled candidates from using the advantage of wealth to defeat poorly financed opponents.³⁹ In his seminal work, *A Preface to Democratic Theory*, Dahl argues in favour of the preservation of equal political influence, as well as voter autonomy, which requires that voters possess identical information about the choices confronting them on election day. For Dahl, voter choice should not be “...manipulated by controls over information possessed by any one individual or group.”⁴⁰

The most vocal supporter of the equality rationale is political philosopher John Rawls. Rawls strongly argues for “public financing of political campaign and election expenditures, various limits on contributions and other regulations are essential to maintain the fair value of the political liberties.” According to Rawls, “It is necessary to prevent those with greater property and wealth, and the greater skills of organisation which accompany them, from controlling the electoral process to their advantage.”⁴¹ The locus of Rawlsian egalitarian democracy is the notion that because the public benefits from the existence of political parties, the state may claim them as public asset and regulate them as such.

Building on the Rawlsian idea of egalitarian democracy, Ronald Dworkin argues that democracy requires that we each have not only an equal say in

choosing among competing candidates and positions, i.e. an equal vote, but also “an equal opportunity to persuade others” of our own views about these candidates and issues.⁴² To him, unregulated spending violates this, as it would allow the rich to make more appeals on behalf of their views than can others.⁴³ In short, the equality view of public funding rests on one central fear that, left to themselves, political actors will transform economic power into political power and thereby violate the principle of political equality.⁴⁴

In addition to this, there is the public-interest argument in favour of campaign finance regulation and public financing of elections: they benefit democracy and serve public interest.⁴⁵ The public-interest rationale has its roots in John Locke’s *Second Treatise of Government* (1689). In it, Locke argued, “When we say that public office is a public trust with fiduciary obligations we mean that elected representatives assume the role of trustees, with the duty of acting for the sole benefit of the citizens who elected them. And that, in turn, means they must not allow their decisions to be influenced by anything other than the welfare of the citizenry they have undertaken to serve.”⁴⁶

Its contemporary proponents claim political parties in democracies as critical links between citizens and the state, and in doing so, the parties serve vital public interest. According to Dawson,⁴⁷ one of the original proponents of public-interest theory, political parties facilitate activities and efficacy in arousing interest, educating for democracy, simplifying the task of the voter, constituting an alternative government in waiting, and minimising transitional delays following an election in which the incumbent party is ousted. Therefore, given that political parties and elected representatives hold “trustee” positions for the electorate, it would be fair for the state to fund their activities. According to the proponents of public interest, if managed well, public funding can vitally improve legislative politics and the quality of democracy. Elected representatives must keep their eyes on their jobs instead of spending time on “relentless pursuits of contributions, sometimes from illegal ways.”⁴⁸ According to this view, it is a failure of representation when candidates spend great amounts

of time to attend the task of fundraising. For them, fundraising is a form of shirking, which affects the quality of the voters' representation⁴⁹ Thus, for democracy's good health, the state has an important interest in ensuring that the elected representatives avoid such behaviour.

To sum up, there are three broad issues that emerge from the discussion on the theoretical positioning of public financing of politics. First, the argument for anti-corruption and keeping "big money out of politics" demands the state to take appropriate steps to address the political finance challenges facing political parties and candidates. Second, public financing is necessary to "equalise influence" and promote competition (create a level playing field for parties and candidates with less resources vis-à-vis parties and candidates with *ex ante* equality). Third, a strong public-interest rationale demands public financing of elections as they benefit democracy and serve the common good. This paper will try to analyse these claims, identifying the variations in implementation. It will also try to identify other factors that can help India institute a more workable law with regard to public funding of elections.

TYOLOGIES OF PUBLIC FUNDING

As mentioned in the previous section, while a large number of countries have introduced the system of public funding of elections, it has usually been a part of a whole system of political finance reforms, or electoral reforms in general.⁵⁰ Therefore, to view public funding and its impacts outside the context of other systemic changes that are simultaneously introduced can easily lead to wrong conclusions. Moreover, various countries have introduced vastly different systems of public funding of parties, and they have had different outcomes. While some democracies have introduced direct public funding, others have preferred indirect funding, such as the allocation of state media for advertisements or allowing the use of public buildings for rallies. Even in the case of direct funding, some countries fund for all party activities while others limit this to election expenses. Further, while a few countries allow subvention to all

registered parties, several others grant funds only to parties that have fulfilled a performance threshold in the previous elections. Therefore, any argument in favour of or against public funding of parties must state the specific system of funding that such argument refers to. As noted by a well-known campaign finance analyst Bradley A. Smith, “To say that one favours government financing of campaigns is a bit like saying that one enjoys sports. Are we talking football? Kayaking? Downhill skiing? Ballroom dancing? Chess? The options are endless.”⁵¹ Public funding can broadly be divided into two types based on the form in which public resources are allocated to parties, or candidates in some cases.

1. Indirect Public Funding

Under this category, the government provides resources with a monetary value to political parties or candidates. The most common forms of indirect subsidies are, *inter alia*, access to publicly owned media, use of government buildings for meetings and rallies, free or subsidised public transportation for candidates and key party personnel for campaigning, free printing and distribution of ballot papers (in countries where parties are responsible for providing them), free or subsidised office space for party functions, interest-free loans to finance basic campaigning expenses, and tax exemptions to incentivise private donations. As per the International IDEA statistics, more than 68 percent of countries around the world offer some form of indirect subsidies to political parties or candidates.⁵²

2. Direct Public Funding

Under the direct funding scheme, the state provides money directly to political parties or candidates to fully or partially meet their expenses. There are many ways in which direct funding systems can differ. Based on the goals, the systems differ in the following aspects:

a) Recipient

Most countries provide direct public subsidies to political parties, particularly to party central offices or the headquarters. However, there are many

countries, such as the US, Australia, Canada, Denmark, Germany, Norway, Spain, Austria and Sweden, that provide direct subsidies to state or regional-level party offices.⁵³ It is only in handful of democracies such as Ecuador, France, Uruguay and the US that candidates receive direct subventions.⁵⁴

b) Eligibility threshold to access public funds

Providing funds to all parties or candidates creates the most competitive electoral system. However, the problem with such a system is the proliferation of non-serious parties or candidates who only seek to get funding. Alternatively, a very high threshold, e.g. a 10 percent vote share as in Bhutan and Malawi, would largely favour incumbents and would be against the interests of competition, as new parties and smaller parties would be ineligible for public funding.⁵⁵

Therefore, most countries have adopted an eligibility barrier based on performance in the previous election. This is usually based on parliamentary representation, as in Bolivia and Finland, or vote share, as in the cases of Germany and Nicaragua. Some, such as Sweden and Costa Rica, have used a combination of representation and vote share with mixed success.⁵⁶

In some cases, such a threshold is determined with the express purpose of providing adequate resources to all political parties to carry out their political activities, thereby providing the electorate with more options. In these circumstances, the threshold (lower limit) would ideally be to encourage more people to take part in the political processes.

c) Criteria for allocation among eligible political actors

Once the recipients and the threshold to determine access to public funds have been identified, the next question that arises is the criteria for fund distribution among eligible recipients. While it may seem that providing equal subventions to all eligible political players is the most democratic method, the idea of providing equal grants to a small party with minimal

representation or minor vote share as that given to large parties is a disregard of the opinion of the voters and can cause wastage of public funds. It could also lead to party fragmentation.⁵⁷ Most countries, therefore, use a system of proportional allocation according to vote share, as in Belgium and Greece, or representation, as in Finland and Sweden.

A key feature of the German allocation criteria is that the amount of funds granted for the first four million votes received by parties, which is 0.85 euro per valid vote, is higher than the amount granted for votes received beyond that, which is 0.70 euro per valid vote.⁵⁸ This is crucial in maintaining a balance between large established parties and smaller, usually regional, parties. In short, the determination of the allocation criteria is a critical factor to ensure the fulfilment of core objectives.

d) Method of disbursement of funds

The challenge lies in the ways and means to disburse funds. There are two elements involved in the methods of disbursement: the purpose and the timing of disbursement. Based on their purpose, parties can be funded permanently or for election campaigns. Most countries have provisions for regular funding or both regular and campaign funding. Only a handful of countries restrict funds to fund electoral campaigns, although the intended use may be different from the timing of the disbursement.⁵⁹

In terms of the purpose, there is a clear distinction between West European democracies and Latin and North American democracies. This is due to the difference in the way these countries view their political parties. While the former view political parties as permanent organisations with comprehensive non-electoral democratic functions, the latter view parties only as institutions with the sole function of running election campaigns and supporting candidates.⁶⁰

The timing of disbursement also varies from country to country. This is significant in determining whether it provides resources to parties to compete. The Colombian system of reimbursement, based on the number

of seats won, does not provide the resources required by the parties at the time of contestation. In Costa Rica, parties receive reimbursements once their financial records have been checked. Due to the lack of guidance on the method of reporting finances from the election authorities, payments to many parties have been stalled.⁶¹ On the other hand, the US provides grants prior to the elections. A few countries, such as Uruguay, combine the two.

IMPACT OF PUBLIC FUNDING

As mentioned in the earlier section, the key rationales behind instituting public funding of elections and political activities are to cut the growing costs of elections, reduce the dependency on “interested money,” enhance political competition by providing a level playing field for smaller and newer political entrants, and institutionalise transparency and accountability in the democratic processes. The following section will describe the impact of public funding vis-à-vis the set objectives as mentioned above.

Public Funding and Reduction in Costs of Elections

The most compelling argument for state subsidies is that it helps reduce and limit the enormous costs of campaigning. The insights emerging from the global experiences provide mixed trends. The negative ones include the following. Despite direct subsidies given to political parties in Israel and the US, the electoral expenditure continues to grow with each election, and parties in both countries continue to be dependent on large private donors.⁶² This is due to the lack of spending limits and the existence of catch-all parties.⁶³ Of course, in the case of the US, this is mostly due to the effect of the 2010 Citizens United judgement.⁶⁴ The judgment allowed what was called “independent expenditure,” whereby, instead of contributing to a candidate, corporate entities could directly spend on advertisements calling for the election of a candidate or the defeat of another.⁶⁵ The exponential increase in expenses in the 2012 Presidential

Election has been attributed to the formation of super-PACs, which the 2010 judgment allowed.⁶⁶

Nonetheless, there are several successful examples, such as Japan and Germany, that have reduced the costs of elections and dependency on private business. Japan, for example, has been able to reduce its campaign costs⁶⁷ through a judicious mix of supporting reforms, including imposing bans on corporate donations, imposing spending ceilings and improving transparency, along with public funding.

Public Funding and the Big Money

Another key argument in favour of public funding is that it reduces the dependence of parties on big private donations. In terms of outcomes, the international experience has been a mixed bag. A close examination of a major case such as South Africa reveals a gross misuse of public funds, especially the wealthy candidates. They continue receiving state subsidies, even as they pocket private money through government contracts and other forms of preferment.⁶⁸ Even in the US, such funding has not reduced the dependency of political parties on wealthy donors.⁶⁹ Till the Citizens United judgment, a candidate would only get public funds for the primaries if they complied with spending limits. Thus, it was only a handful of candidates who would opt for public funds. Post the judgment, the situation worsened as a spending ceiling is no longer constitutional. In the General Election, public funding is only available to candidates who refuse all private donations. Therefore, public funding of the Presidential Election candidates is a very uncommon practice.

With regard to checking the growing plutocratic influence on party finance and corruption, the evidence emerging from the ground indicate mostly negative trends.⁷⁰ For instance, in Israel and the US, as noted above, public subsidies have not reduced the reliance on private donations. Similarly, in several Latin American countries—particularly Brazil, Argentina, Colombia, Ecuador and Costa Rica—public subsidies have

proven ineffective in limiting the role of business in political financing. The key reason for this can be attributed to the lack of spending ceilings and strict monitoring in these countries.⁷¹ The easy availability of money from interest groups and business circles to typically catch-all parties also contributed to the failure of public subsidies in Israel and the US. In Latin America, business ordinarily played a central role in campaign funding because there were no other sources available for parties. The parties in Latin America are typically characterised by weak party organisations, scarcity of fee-paying party members and weakness of interested trade-union contributions.⁷² Therefore, public subsidies in this case could not replace the need to attract private donations, and merely became an additional source of income for the parties.

However, there have been a few successful examples as well. Canada, for instance, introduced public subsidies as a part of a whole set of reforms, including spending ceilings and tax incentives for smaller contributions. The country has been able to successfully reduce the role of interested money in party financing.⁷³ In Sweden, generous public subsidies, which far exceeds private donations, and minimal state intervention in party affairs have been successful in reducing temptation for parties to seek anonymous interested money.⁷⁴ In both these cases, it is necessary to understand that other factors, particularly strong disclosure laws, strict monitoring of electoral expenses, and tax incentives for smaller parties, were also responsible for the resultant effect.

Public Funding and Electoral Competition

Does public funding of elections encourage new entrants and promote electoral competition? International experience suggests that public subsidies fostering competition is a function of how public subsidies are distributed. Some countries, particularly Russia, have used it to stifle political competition and promote authoritarianism. The 2001 Electoral law (Legislation and Practice of Holding Elections), apart from establishing heavy state subsidisation, also introduced other regulations such as limited

private donations, spending ceilings and strict disclosure requirement. This has led to a situation where it is almost impossible to challenge the ruling party.⁷⁵ Thus, it has created a cartel party. But there is evidence of the opposite too. Many new parties have emerged in countries such as Canada and Finland, where public subsidies were introduced to reduce proliferation of parties.⁷⁶ In some instances, particularly in the cases of Israel, Italy and Mexico, introduction of public subsidies has brought greater competition by enabling the entry of newer parties and providing smaller parties with the funds to compete with incumbents.⁷⁷

There are also some peculiar experiences, particularly among parties that have certain ideological preferences, such as the left parties. It is well known that these parties find it increasingly difficult to compete with right-wing parties because huge private funds are readily available to the latter. In some ways, the introduction of public subsidies is helping those political entities, as evident in the case of Uruguay.

Countries can also employ public subsidies to promote competition within political parties. This is achieved by introducing public funding to determine a candidate at the intra-party level. One of the best examples of this is from the US, where candidates can seek public funding to contest intra-party elections for candidature. Another method of promoting intra-party competition is by routing public subsidies directly to lower units of parties and thereby strengthening them and ensuring intra-party democracy.

Other Impacts of Public Funding

Public funding of politics serves many additional purposes as well. One of them is that such a strategy promotes institutionalisation, thereby greater compliance of transparency norms. A quick survey of literature indicates that results of institutionalisation largely depend on the purpose and method of disbursement of funds to parties/candidates. A comparative analysis of Latin America and Western Europe provides a reasonable

understanding of how party institutionalisation works. In countries such as Uruguay and Costa Rica, although generous subsidies are provided to party members, there is very little evidence of institutionalisation of parties. This is evident from the fact that between elections, the financial turnovers, membership and party activities remain very low. It is the opposite in the case of most Western European countries, where permanent subsidies have led to strong party organisations.⁷⁸ The difference here can be attributed to the different view of parties in the two regions. While the former considers parties as merely election-contesting bodies, the latter consider parties as institutions that are a part of the democratic process. Moreover, it is argued that direct subsidies can provide parties with the bare minimum they need for organisational activities.

Similarly, on the issue of whether direct subsidies replace small contributions and membership dues, results are mixed. It is argued that public funding can make parties over dependent on state funds and thus reduce their reliance on members and small contributors for finance.⁷⁹ However, this is countered by the argument that public funds are supposed to reduce political parties' reliance on wealthy donors and grant them non-interested money to reach out to the people. The result in many countries has shown that public funding has not reduced party memberships and small contributions to parties. For instance, in Sweden and Norway, although parties were generously funded, membership rates have grown. In Spain, which grants public subsidies through a system of reimbursement of campaign finances, a party—Podemos—used a method of crowdfunding on the promise of returning the funds once the reimbursements came through. This helped them refuse any income from corporate donors.⁸⁰ Other democracies, such as Germany and the US, have imposed regulations on public funding that encourage donations from small contributors and members by a fund-matching scheme.

Wherever public funds are granted generously, it can be used to secure compliance with other regulations. Apart from the threshold requirements, additional requirements can also be imposed on parties, failing which public

funds could be withdrawn. For example, in Slovenia, public funds can be suspended if parties exceed spending limits, and in Belgium, they may be temporarily withdrawn if parties do not submit their annual financial statement.⁸¹ Here again, the German model of matching funds generated through small contributions and membership dues is a fine example. The system of matching funds has incentivised parties to stay close to the electorate and generate funding from the people in small donations.

To sum up, the international experiences show mixed trends. There are countries that have embraced public-funding options with lofty ideals of checking the role of big money and corruption but without any positive results. Yet, there are many countries that show major promise on these goals. The critical elements in determining success and failure are serious issues of strict criteria for disbursement, ceiling laws on expenditure, restriction of private donations and strong regulation regarding enforcement. Thus, the key takeaway is that if public funding option has to work, it must be backed by strong supportive reform provisions ensuring strict enforcement of transparency and disclosure norms.

LESSONS FOR INDIA

As discussed in the introductory section, India's political finance regime is under great stress for various reasons, but most significantly due to rising election expenses. Vote buying is a commonly observable phenomenon, and parties and contesting candidates without exceptions are expected to spend a considerable sum to put up a decent campaign in constituencies that are as big as some European countries.⁸² To create decent election campaigns and to run routine political activities, parties and candidates explore every avenue, including illegal and criminal money.⁸³ As per available data, most open-source donations to political parties in India are secured from private businesses.⁸⁴ Today, there exists a considerable body of literature pointing to a quid-pro-quo business-politics relationship that has grown enormously in the era of economic liberalisation. From infamous "briefcase" politics, which saw select corporate houses generously donating to individual

politicians for quid pro quo, to the disturbing trends of bankrolling an entire political campaign, business funding of politics has emerged as the single biggest challenge confronting Indian democracy today.⁸⁵

Moreover, the expensive nature of elections acts as a huge barrier for a lot of aspiring candidates to enter politics, thus working as an “entry barrier.” In the absence of adequate funds, smaller and new parties find it particularly difficult to run decent election campaigns. Further, given that many parties in India are controlled by handful of families and regional strongmen, party finances, too, are controlled by them. Since there is very limited internal democracy in these parties,⁸⁶ they exert complete monopoly over finances. Then again, with the growing role of money in elections, most parties (with few exceptions) select rich candidates or ones with the ability to raise funds to fight elections, while meritorious or talented candidates find it hard to participate in the democratic processes.

However, the democratic system should not be the preserve of a few. Thus, for the interest of reducing the role of interested money, providing a level playing field for newer and smaller parties, and improving internal democracy within political parties, there have been calls in India to set up a public funding system to fund politics. This proposal received some amount of support from Prime Minister Modi during the controversial demonetisation drive last year.⁸⁷

To revisit the background to the debate, successive governments in India have taken note of the challenges by adopting diverse means and methods to curb negative trends distorting democratic processes.⁸⁸ Among the many reform proposals, the idea of public funding of politics, especially the funding of elections, has been in discussion for quite some time. India’s civil society and policy circle, too, is filled with a wide variety of opinions and narratives on public funding of elections.⁸⁹ Many committees appointed by successive governments in the last two decades have discussed various proposals of direct state funding of parties and elections. The following is a summary of the recommendations of the various

committees. The reports by the Goswami Committee (1990), Indrajit Gupta Committee (1998), the Second Administrative Reforms Commission (2007) and the Law Commission (2015), which dealt with public funding issues, have argued against full state funding. Their rationale has been that the prevailing economic conditions and development needs make it infeasible to fund a large democracy. Instead, they have argued for partial subsidies in kind. On the other hand, the Law Commission Report (1999), Venkatachaliah Committee Report (2002) and the 255 Law Commission Report (2015) have insisted that regulatory frameworks dealing with transparency, disclosure, auditing and submission of accounts and internal democracy of parties must precede any attempt at complete state funding. The CII Taskforce Report (2012) suggested for the imposition of a democracy, a cess of 0.2 percent of the income be paid by individuals and corporates to finance election expenses. Another business association, the Associate Chamber of Commerce of India, in its 2015 report, proposed to set up a government fund for elections, worth INR 5,000 crore, to be disbursed over five years.

However, committees and commissions have largely failed to build consensus on its criteria, methods, and quantum of such funding. Although all the committees have proposed state funding, as of now, political parties in India only receive limited indirect subsidies. Since 1996, parties can access free time on state-owned electronic media. But since Doordarshan and All India Radio only form a miniscule part of the electronic campaign advertising options for the parties, this is hardly of any consequence.

The other in-kind subsidies provided to the parties are in the form of free supply of copy of electoral rolls and identity slips of electors to candidates. In addition to this, any donation to political parties is eligible for income tax deductions. However, these measures, too, have not had a serious impact on reducing the costs to be incurred by the parties or increasing the funds available to them.⁹⁰ Other regulations have also largely been in vain. The lack of expenditure ceilings for parties and others in

support of candidates (prior to The Election and Other Related Laws (Amendments), 2003) and extremely low limits for election spending by candidates thereafter have resulted in frequent evasion of the regulations.⁹¹

Arguably, the lack of state funding has contributed to the failure of compliance. The blanket ban on corporate donations in the absence of any other source of funds resulted in corrupt fundraising practices among parties.⁹² The situation worsened due to the lack of any spending ceilings on the parties. While the ban on corporate donations has been removed, there is still a limit on the total amount that can be contributed by a company under the Companies Act.

As discussed earlier, the norms for transparency are almost always violated, and there are no incentives for parties to raise funds through small contributions and in other legal ways. Due to the fear of backlash from political parties in a government-regulated market, even tax benefits have not incentivised legal and open donations for big corporate houses.⁹³

It is not easy to find solutions from the experiences of other countries, since each has a different context, wherein the nature and dynamics of the democracy and the nature of representation are different. However, one can illustrate a range of options for India.

Checking rising costs and reducing the role of interested money

It is difficult to measure the actual need for money as the expenses shown by candidates and parties in India are untrue and unreliable. But what is known is that most of the money used in elections comes from corporate donations sourced through anonymous routes. Infusing state funding can reduce the dependency on illegal corporate donations, if not eliminate it completely. As seen in the cases of several other countries, to avail state funding, political parties must agree to give up sourcing money from the corporate sector.

Japan's example is relevant here. Japan has been able to reduce the costs of their elections by implementing state funding. Over the years, the

country has made public funds the main source of income of the parties by imposing regulations on spending, mandating transparency and imposing bans on corporate donations. It is pertinent to combine public funding with spending ceilings and limiting, if not banning, corporate money in elections.

In comparison, prior to the 2003 amendments, no real limits existed in India, as the regulations only applied to candidates. Post 2003, the limits were set so low that it was bound to be dishonestly exceeded. The ban on corporate donations in 1969 had a reverse effect of increasing black money.⁹⁴ Therefore, it is important that the spending ceiling is set based on actual estimates of spending, instead of arbitrarily setting a minimal limit. Further, instead of banning the concept entirely, corporate donations must be legalised up to a certain limit.

India can learn a lot from the Canadian experience.⁹⁵ In Canada, public funding was introduced along with stringent regulations, including spending ceilings and tax incentives for smaller contributions. While tax incentives for corporate donations was unsuccessful in India, tax incentives for small contributions may enable parties to generate more income from such contributions and reduce their reliance on corporate donations.

India can also learn from the case of Germany, which uses the method of matching grants. The state matches the funds raised by parties through other means. This can have a huge impact on incentivising parties to seek more income from small contributions and generate more money through membership dues. It also solves the frequently mentioned problem of the expenses of raising money through small contributions.

Similarly, Sweden is another good example as far as phasing out corporate donation is concerned. In Sweden, where corporate donations were a major source for political parties, the imposition of state subventions had a radical effect, so much so that the parties voluntarily stopped accepting donations from corporate donors.⁹⁶

Small donations and grassroots financing have been encouraged through public funding and tax incentives in other Western European countries as well, such as France and Netherlands. But the reason for the reducing role of corporate money in Netherlands can be attributed to the fact that the decision-making is in favour of corporates, which feel no need to donate to parties.⁹⁷

However, the Indian scenario is very different from that of the Dutch. Here, the method of reducing corporate donations must be seen in incentivising small contributions and membership dues to reduce reliance of parties on corporate donations. The timing of disbursement must also be considered. A post-electoral reimbursement system does not usually reduce reliance on corporate donations as state funds are absent at the time of campaigning, as in the case of Colombia and Costa Rica.

Fostering Electoral Competition and Inner-Party Democracy

The lack of electoral competition exists in candidature in parties and otherwise. The National Election Audit Report (1999) that dealt with the amounts spent by candidates suggested that candidates have to spend a certain minimum amount to be competitive. Therefore, due to the growing need for money for campaigning, parties prefer candidates who can finance their own expenses.⁹⁸ This is, at least partly, responsible for the overwhelming prevalence of candidates with criminal records.⁹⁹

Public subsidies can greatly reduce the need for candidates to finance themselves. It can provide the bare minimum needed by parties and candidates to contest elections and even to carry out other party activities, including fundraising for campaigning.

From the preceding review of different countries, it is pertinent to note that public subsidies must be routed in a careful manner. If the recipient of the subsidy is the party head office, it might lead to concentration of wealth and power in the hands of a few in the party. In India, most regional parties

are either family-run or feudal in their structure and function. On the other hand, subsidies to all candidates could lead to proliferation of non-serious fund-seeking candidates. The threshold should be such that it should encourage competition but not lead to wastage of public funds.


The US system of funding candidates for intra-party election is a successful method of tackling the problem.¹⁰⁰ Therefore, to overcome the lack of competition in determining candidates, it is necessary to promote intra-party democracy via public funding. One of the suggestions made in this regard is to route subventions directly to local, constituency-level units of party organisations on the basis of their performance in the election.¹⁰¹ The benefits of this would include reducing the dependence on corporate donations and on party head offices, and it may lead to increased democratisation of the party. One problem with such an approach, however, is that the funding would be in terms of a post-election reimbursement. This has sometimes, as in the case of Colombia and Costa Rica, led to lack of funds at the time of campaigning.

Granting subsidies directly to candidates will strengthen lower-level leaders and party fraction. The strengthening of lower levels may lead to demands for policy changes and even the threat of secession, which will pressurise parties to decentralise and democratise.¹⁰²

Implementation of Existing and Proposed Regulations

Public funding can be the perfect “carrot and stick” for electoral regulation. The incentive of receiving funds without “interest” or collection efforts and the threat of its withdrawal can ensure compliance with other regulations. As in the case of Belgium, Slovenia and Sweden, the threat of withdrawal or suspension of public funds can be used to ensure compliance with various regulations including accounting standards, audit and timely submission of income and expenditure statements, transparency and disclosure, party institutionalisation, and internal democracy.

However, for the threat of withdrawal to have positive effect on the parties, it is pertinent to ensure that public funding is the major source of income for the parties and not merely a small additional source of funds. In all the countries discussed in this paper, public funding is generous and is the largest, if not the only, source of funding available to parties.

To sum up, evidence from global experiences clearly indicate that the public funding option cannot be a panacea for all the ills of a political finance regime. At best, it provides mixed results and greatly varies across countries. While it has shown plenty of promise in some democracies, it has failed in others. From the various observations, however, it is clear that to ensure that public funding is effective, a country must adopt a two-pronged approach: reducing the dependency on corporate/private money (by strict limits, strong regulations, disclosures) and infusing white money through state funding or incentivising various other funding options including tax-free donations or loans. 

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