

MONEY AND THE ELECTORAL CONTEST

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Today, I would like to share with you some thoughts on what I consider is one of the main challenges faced by modern democracies: **how to promote a sound and more transparent relationship between money and politics.**

As all of you know, from the late 1970's and through the following two decades, **the world witnessed with optimism a series of transitions toward democracy.** During those years, political analysts in academic centers and international agencies around the globe focused on the study of **what conditions were conducive to the establishment of electoral democracies** and on **ways in which a successful transition was feasible for countries still living under non-democratic regimes.**

However, once plural political institutions have been established, **a new series of issues have arisen regarding the performance of emerging democracies.** There is a new agenda of challenges for both **democratic consolidation**, and for the increase in **the quality of democratic institutions.** One of these new issues is **the relationship between money and politics**, which has become in recent years **one of the most sensitive concerns** among democracies, especially among those in a consolidation stage.

In these days, no country in the world can claim to be exempt of experiences where the undue influence of money has led to **accusations of corruption, political scandals and, ultimately, public distrust in the political activity.** The most recent Global Corruption Barometer published by Transparency International shows clearly that **people around the world perceive that one of the main sources of corruption in their countries is politics. More worryingly, in 36 out of 62 countries surveyed by TI, political parties were rated by the general public as the institutions most affected by corruption.**

At the Latin American region, the United Nations Development Program's Report on Democracy also shows that **political parties are consistently ranked in the bottom of surveys measuring public confidence in institutions.** The average Latin American citizen considers that political parties are even less reliable than other institutions facing important public confidence problems, such as the legislatures or the police. Both TI and the UNDP have identified **financial scandals as a main source of this lack of confidence in political parties.** This creates a number of significant problems for democracies, as citizen participation in public affairs is hampered to a large extent by **skepticism in the institutions that are central to democratic systems, such as political parties.**

Clearly, for emerging democracies to consolidate, it is necessary to promote a sound relationship between money and politics. However, as all of you know well, this is much easier said than done. Money and politics have, and will always be intertwined. The problem here is that, as John Maynard Keynes put it one hundred years ago *"whatever be the numerical representation of wealth, its power will always be out of proportion"*.

It has come onto us, electoral authorities, to try and find innovative ways to regulate this power on behalf of the public interest. In this context, **there are three key questions**

that I think can serve us as a map to begin our discussion and exchange of ideas on money and politics during the workshops taking place in the following days. These questions are:

1. **Should money for political parties come from public sources, from private sources or from both?**
2. **What is the best approach to regulate the relationship between money and political campaigns?**
3. **Should electoral authorities regulate political parties' access to the mass media?**

1. Should money for political parties come from public sources, private sources or from both?

In order to address the first question, let me start by summarizing the different points of view on what is the most desirable source for financing of political parties. On the one hand, advocates of **private financing** consider that political activities should be paid by those who take a voluntary interest in ideologies, issues and candidates. From this perspective, **passing the bill of political competition to taxpayers is both unfair and inefficient.** Another strong argument **in favor of private contributions** is that they create **a linkage between parties and their constituencies**, making politicians more responsive to the demands of their supporters.

On the other hand, there are **three important arguments** that have led to many nations to support the allocation of **public resources** for political parties: **equality, legality and the social benefits of democracy.** With regard to **equality**, it is clear that the use of money in politics will inevitably reflect the uneven distribution of wealth in a society. Therefore, political parties representing the interests of the affluent will have better chances to win than parties representing disadvantaged constituencies. **Public money levels the playing field, thus promoting a wider social representation in electoral contests.** The second argument for granting parties public resources is to **promote legality.** It is argued that, left to their own devices, political parties will be tempted to raise money from whatever available source. This need is higher in an environment where campaigning costs are constantly rising, which raises concerns about **the origin of funds for politics and the risks of undue influence from illegal or even criminal groups.** Public money flows are also easier to track and oversee, which helps to ensure the legality of electoral contests. Finally, a third reason for favoring public funding to political parties is related to the notion that **democracy can be characterized as a “public good” providing key “positive externalities”**, such as political stability and civic liberties. The benefits of such externalities clearly outweigh the associated costs. Thus, sustaining democracy with public resources ensures the existence of these positive effects over time.

In the case of Mexico, **political parties are mostly publicly-funded institutions.** This fact has its origins in the nation's political evolution. As you may know, the Mexican political system was dominated by the Institutional Revolutionary Party (PRI) during most of the 20th century. Virtually all political positions, from the nation's presidency to governorships, municipalities and Congress seats, were occupied by PRI politicians. During the 1990's a series of electoral reforms helped to promote democracy and competitiveness in elections.

Public funding to political parties was introduced in 1996 in order to reduce the inequality faced by opposition parties vis-à-vis the PRI. This boosted political pluralism in the Congress and state governments, and paved the way for the victory of an opposition party in the presidential elections of 2000, which ended 70 years of a single party's dominance.

Nevertheless, the search of equity and pluralism has turned out to be very expensive for taxpayers. For instance, **for the 2006 election, the Federal Electoral Institute estimates that parties will receive almost \$500 million dollars.** But, despite receiving important flows of cash, the increasing costs of political campaigns have made many parties to **seek private funding, even if this means to break the rules prohibiting certain money sources, such as unions or foreign donors.**

The challenge in Mexico is dual: on the one hand, **public funding is one of the foundations of the nation's political pluralism,** with all the benefits that a vigorous electoral competition has for democracy and the empowerment of citizens. On the other hand, **the amount of public funding granted to parties is highly unpopular,** due to the perception that these resources have been often diverted for the personal gain of some politicians, and that political campaigns are often more centered on personal attacks, rather than on more important issues and concerns affecting citizens.

In this context, several ideas have been proposed to moderate the cost of the Mexican democracy for the taxpayer, such as reducing the length of political campaigns. However, the Congress has not amended the electoral law in this regard. Consequently, the IFE has focused more on **identifying the sources of private funding to political parties** in order to ensure their legal validity and to **uphold the rules limiting its amount.** The IFE also **tries to detect cases of inadequate use of public funds for political campaigns,** although this is a task that also belongs to the sphere of other public auditing offices.

2. What is the best approach to regulate the relationship between money and political campaigns?

The second question is related to the approach that electoral authorities follow when regulating the relationship between money and politics. In many nations, the autonomous nature of political parties has led to adopt a ***laissez-faire* approach** to their finances, based on the assumption that **disclosure has by itself the power to regulate the system.**

In this approach, parties are required by law to make public the sources of their funds, which are mostly or entirely private. The voter has then the right to access this information, either directly or through the media, and then passes judgment on the legitimacy of their preferred party's or candidate's contributors. **Parties, it is assumed, will pay special attention to their sources, as illegal or dubious contributors could harm them politically and turn voters away from them.**

On the other hand, the **regulatory approach** says that a public agency must monitor and check the flow of money going to the pockets of candidates, on behalf of the general public. **This approach emphasizes the role of sanctions to dissuade and/or to punish parties accepting illegal money or breaching the limits imposed on campaign spending.**

This is the case of the IFE in Mexico, as we have the legal mandate to organize federal elections **and** to allocate and oversee funding to political parties. The IFE also oversees that

parties do not breach the limits imposed on campaign spending, as a way to ensure equity in the competition. This has created a **complex “love and hate” relationship between parties and the electoral authority**, as the IFE needs cooperation of political parties in all the issues related to electoral organization. However, **conflict often arises when the IFE performs audits to parties’ financial statements, and especially when such audits expose irregular management and lead to sanctions.**

Some analysts have pointed out the need to introduce some components of the *laissez-faire* approach to gradually reduce the role of sanctions as the main regulatory tool, thus diminishing the conflictive side of the IFE – parties’ relationship. Transparency can serve as a preventive measure, aiming to make these institutions more accountable before the electorate. **The IFE has taken steps toward this goal, by modifying its rules on public access to political parties’ information.**

3. Should electoral authorities regulate political parties’ access to the mass media?

When talking about money in politics one has to deal with the issue of parties’ access to the media. Campaigns in modern democracies are indeed a costly business. Parties are constantly in need of more resources to be competitive, and **being competitive is often the same than being permanently on the spotlight of the mass media.** Many democracies allow parties to buy freely their own media time, following the market rules. However, other countries have recognized that **parties’ access to the media can also pose a challenge in terms of the cost and the equity of the electoral competition.** In order to address these challenges, electoral legislations in different countries establish a wide variety of arrangements, such as:

- √ Banning advertising in private media;
- √ Allowing access only through publicly-owned media enterprises at low or zero cost; or
- √ Offering parties free time in the slots allocated for public service announcements in private media, among other measures.

However, any attempt to regulate the political use of media influence **often enters in conflict with issues such as freedom of speech.** The challenge is how to **combine the flexibility that every modern campaign needs in using of media as a tool to reach and persuade the electorate with the issues of transparency, equity and the cost of the electoral contest.**

In Mexico, **political parties are granted free access to the media via the IFE.** Nonetheless, they can also purchase their own spaces either with public funding allocated by the Institute or with private money. **It has been estimated that Mexican parties spend between 50 and 70% of their resources in radio and TV advertising,** thus making access to the media one of the key elements in the discussion to curb the costs of political campaigns, and thus in moderating the costs of democracy for the taxpayer.

Yet another issue in parties’ access to the media is the **quality of the public debate.** Citizens need information regarding parties’ platforms and candidates’ proposals on the relevant issues, in order to cast a more reasoned vote. Nevertheless, **modern campaign advertising has overemphasized the role of image, emotions and perceptions.** The media often focus on the exchange of accusations and insults by candidates, rather than in their specific public policy proposals. **The IFE in Mexico has sought to improve the quality of political debate**

by organizing academic events and conferences and by airing TV and radio debates between members of all parties.

As we have seen, the relationship between money and politics is not a problem with a simple solution. **The long-term challenge for the electoral authorities is how to create the right incentives for all actors to promote best practices in party financing:**

- √ Regulation must ensure a basic level of **equality** in the opportunities for all parties competing in an election.
- √ Regulation must also open up **different channels for political fund raising**, since parties cannot become neither fully- subsidized public agencies, nor private entities responding only or mainly to particular interests.
- √ Regulation must **rely not only on sanctions, but also in promoting transparency and disclosure** regarding the origins and sources of funding for political parties.
- √ Regulation has also to **seek ways to ensure that all parties have access to the mass media, looking for ways to enhance the quality of public debate.**
- √ Finally, regulation has to keep in mind that **money and politics are inevitably related, and will remain that way in the future.**
- √ Therefore, the best approach is to **find realistic and feasible ways to regulate this relationship and promote an efficient and transparent party finance system.**

I am sure that this International Conference will allow us to discuss innovative ways to address these and other important challenges faced by electoral institutions throughout the world.