

# Party Subsidies and the Freezing of Party Competition: Do Cartel Mechanisms Work?

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*The number of countries offering public subsidies to political parties has vastly increased in recent decades, but there have been few attempts to assess how these subsidies affect political competition. Expectations about their likely impact vary widely. Some have described subsidies as key devices used by so-called 'cartel parties' to buttress their status and exclude new challengers. Others see subsidies as incentives that encourage new party formation and sustain fledgling parties that otherwise might disappear. The research reported here investigates the circumstances under which subsidies seem more likely to play one or the other of these roles by considering the development of party systems and party subsidies in European democracies. It finds little evidence that subsidies freeze out new parties, but there are signs that certain schemes may encourage party fragmentation.*

What policies can prevent democracies from becoming plutocracies, while not depriving parties and politicians of the resources they need to communicate their messages? In recent decades, many countries have answered this question by instituting public subsidies to underwrite the extra-parliamentary work of political parties, whether to support campaign activity, or organisational activity in non-campaign periods, or both. These subsidies are generally promoted as ways to encourage cleaner politics, with the argument that they will make parties less dependent on private donors and more able to rely on funds that come without unseemly strings attached. They are supposed to enhance the appearance of political propriety, an aim that seems particularly important when surveys in a wide range of countries tell us that political parties rank first among the institutions perceived to be corrupt (Hodess and Wolkers 2004: 3; Hodess 2001).

If public subsidies to parties, and the financial transparency conditions which often accompany them, can help allay public suspicion about political

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parties, the spread of such subsidies should be seen as a positive sign. Yet some observers have been far from sanguine about this trend. Many argue that public subsidies for political parties are nothing less than tools deliberately designed to tilt the political playing field in favour of the status quo. This study looks at this second aspect of subsidies' impact by investigating experiences with subsidies and party system development in European democracies. Whatever subsidies' impact on public opinion and perceptions of politics (see Scarrow 2004), is there evidence that they can affect the party system or other aspects of political competition in an adverse (or indeed, in a positive) way?

### **The Spread of Direct Public Funding for Political Parties**

Direct public funding for parties is a relatively recent invention. Such subsidies were introduced long after the spread of mass suffrage elections had helped to make political parties central players in democratic life. Other, more indirect, types of public funding for parties had been introduced a bit earlier. For instance, during the first half of the twentieth century, parties in many countries began receiving a growing range of support for their electoral work, as states took over the costs of registering voters and printing ballots (once paid for by the contestants). In many countries, parties and/or candidates also began to get free mailings during election campaigns, and sometimes free broadcast time on radio, and later on television. But it was not until the second half of the twentieth century that countries began to pay direct monetary subsidies to support the work of political parties *outside* legislatures. Costa Rica and Argentina were the first countries to institute such direct subsidies, in 1954 and 1955 respectively, closely followed by the Federal Republic of Germany in 1959 (Alexander 1989: 14).

Of course, this was not the first time that governments had used public funds to subsidise the organisational work of *certain* political parties: before this, government patronage to 'friendly' parties had a long tradition in many countries. Well known examples include German Chancellor Bismarck's support for the partisan press in 1880s, and kickback schemes for government contractors that helped to finance many municipal party machines in the United States from the end of the nineteenth century onwards. What was new about the subsidies introduced in the 1950s was that they were specifically designated for parties' work outside of the legislatures (whether for campaigns or for ongoing 'educational' work between elections), and, importantly, that they were to be paid to *all* parties which met the eligibility tests – in other words, to opposition parties as well as to those that supported the government. Indeed, the fact that subsidies were paid for work done outside the legislatures opened up the possibility that subsidies could, and perhaps should, be paid to parties that were not even represented in the legislatures.

Once introduced, the idea of paying public subsidies for political parties caught on rapidly. A survey of 76 electoral democracies in 2002 found that 46 of them (61%) offered such subsidies (Austin and Tjernström 2003). As this suggests, a form of payment that was exceptional even as late as 1975 had become very much the norm by the start of the twenty-first century.

The introduction of subsidies generally has been justified in at least two ways, one of which emphasises the worthiness of political parties, the other of which emphasises their fallibility. On the one hand, subsidies for parties have been presented as a proper use of public monies to support crucial civic institutions. This justification gained its force from a changing appreciation of political parties in the second half of the twentieth century, as prevailing political theories de-emphasised the divisions associated with political parties, and instead began to emphasise the central role that political parties can play in mediating conflicts, and thereby in maintaining stable democracies. In the aftermath of the interwar collapse of European democracies, politicians and political analysts came to view parties as essential components of effective systems of democratic government. This view spawned the argument in favour of public subsidies for pro-democratic parties, because when parties compete to get their messages to voters, they are improving the quality of democracy, and hence are pursuing a public goal that is worthy of public support. According to this view, subsidies can improve political competition by levelling the playing field enough to let every party (or at least, every 'serious' party) have the resources it needs to communicate its message. Just as public funds support other institutions that contribute to civic life (schools, public broadcast systems, arts organisations), so, too, should public funds be used to support partisan efforts that are crucial to maintaining democratic life.

On the other hand, paying direct public subsidies to parties has been justified as a remedy for one of the defects of the political system, the fact that parties' need for funds may make them overly dependent on generous but self-interested corporations and individuals. Providing parties with public funds to support their political outreach work is one tool that is supposed to make parties less beholden to private donors, and more attentive to those without financial resources, thereby improving the quality of democracy.<sup>1</sup> This justification has even been incorporated into the texts of some of the laws which establish subsidies for political parties (as in Spain in 1978 and in 1987) (Egido 1992: 439). These basic arguments in favour of public subsidies start from different assumptions about the worthiness of the recipients, but both point to the same conclusion: that public funding for political parties will improve the quality of political competition.

Whatever arguments are made in favour of introducing or boosting party subsidies, it does not take a high degree of cynicism to wonder whether the politicians and parties who favour such subsidies may be more self-interested than concerned with the welfare of the political system as a whole. Indeed, some have argued that subsidies often are implemented with

the explicit intention of stifling political competition, pointing out how payments are likely to be structured to favour the status quo, with high thresholds for eligibility, and with the greatest rewards going to parties which receive the largest vote share (for instance, Paltiel 1980: 366). More recently, proponents of the cartel party viewpoint have elaborated this perspective, portraying public subsidies as one of the key weapons wielded by established parties to freeze out new challengers: 'precisely because these subventions are often tied to prior party performance or position, whether defined in terms of electoral success or parliamentary representation, they help to ensure the maintenance of existing parties while at the same time posing barriers to the emergence of new groups' (Katz and Mair 1995: 15). Many suggest that subsidies themselves are one of the chief hallmarks of a cartel system (which, given the spread of subsidies, suggests an equally wide expansion of cartel behaviour). Even authors who note that the introduction of subsidies has benefited smaller parties, also may conclude that the much greater amounts going to larger parties seem to tilt the field in favour of the status quo (Bowler *et al.* 2003: 93).

This is a serious charge to level against a tool that is supposed to help correct another kind of troubling imbalance in democratic politics, the apparent impact of private money on political outcomes. Yet the idea that public subsidies for parties dampen political competition has gained widespread currency, even in the absence of detailed investigations into this phenomenon, or into the circumstances under which subsidies are most likely to privilege established competitors over new voices. So far the best examination of this question is a study of the development of political subsidies in 11 European countries and the United States, which concluded that public subsidies 'are too weak to make a decisive difference in any crucial aspect of party development', including party system change (Pierre *et al.* 2000: 22). According to the authors, patterns of party system expansion and freezing in these countries seemed largely unrelated to the advent of subsidies for extra-parliamentary party activities.

That study cast doubt on the idea that political subsidies are a reliably effective tool of exclusion, but, as the authors themselves acknowledged, it may not provide the final word on the subject. To begin with, and as will be argued in more detail below, its overview of party system development lacked detail, and seems to have been based only on developments *within* legislatures, so it may have overlooked some more subtle developments in political competition outside the legislatures. In addition, in many of the countries examined the public subsidies had been instituted towards the end of the period observed for that article (1990), so it might have been too soon for the effects of the subsidies to have become apparent. Finally, the study did not differentiate between various payment rules, and hence could not comment on whether different types of subsidy schemes have different effects. In short, while this article does cast doubt on assertions that party subsidies greatly alter the political landscape, the matter is certainly far from being settled.

More detailed studies of specific cases have given contradictory messages about the impact of subsidies on political competition. Thus, a recent study of Estonian politics emphasised the ineffectiveness of subsidies and other devices in blocking the rise of new competitors, at least when those challengers could draw on private funding sources (Sikk 2003). Some case studies have even suggested that under certain circumstances, subsidies encourage an expansion, not a contraction, of the party system. For instance, shortly after political subsidies were implemented in France, the French courts ruled that access to these subsidies must be significantly broadened. One apparent effect of this change was a proliferation of parties and candidacies (Knapp 2004: 63). Similarly, a study of Scandinavian parties has pointed out that in these countries it is small parties, not large ones, which gain the largest share of their revenues from state subsidies, and which therefore can be seen as the main beneficiaries of such funds (Sundberg 2002: 199). Meanwhile, one study of political finance laws in Central and Eastern Europe concluded that the evidence from these countries was ambiguous, and that it was too early to determine whether state funding for parties blocks new entrants (Lewis 1998: 154). A slightly later study of the same area argued that in these new democracies public subsidies have acted as a counterweight to plutocratic politics, providing some parties with crucial resources in an environment where traditions of private funding and party membership were under-developed, and where private monies mainly went to governing parties (Ikstens *et al.* 2002: 34).

And here, as often, the devil may be in the detail. In principle, public subsidies could make existing parties less beholden to donors, and they could stimulate competition by making it easier for new challengers to gain an organisational foothold, but whether they in fact do so may well depend on how those subsidies are structured. Thus, this study takes a closer look into the impact of subsidies on party competition, concentrating particularly on the apparent impact on the smallest parties. How *do* public subsidies seem to affect the competitive environment, and the range of citizens' political choices?

### **Subsidies for Extra-parliamentary Parties: Some Basic Distinctions**

One of the challenges in trying to answer this question is that political subsidies come in all shapes and sizes, and it is not easy to develop strict rules for defining comparable payments across various countries. As Pierre *et al.* point out, it can be difficult to distinguish between payments to parties for various aspects of their work. Payments to support the staff of parliamentary parties are not subsidies for extra-parliamentary work, but they may free up resources for such work. Similarly, payments to so-called 'educational foundations' may support organisations that are nominally outside of electoral politics, but which conduct research and educational work which directly benefits particular parties. The challenge for analysts is

to figure out which of these and other payments should be counted as subsidies for parties' extra-legislative work.

There is no standard answer to the question, which is one reason why scholars may give different answers to the question of when such subsidies were initiated. In what follows, the definition narrowly focuses on subsidies paid to parties to carry out their extra-parliamentary work, something which includes funds to help with election expenses, but does not include money for party foundations or for partisan newspapers. This narrow definition is chosen because it is these direct subsidies which have been most explicitly linked with changes in political competition, and because direct payments to parties are the policy instrument most often discussed as an antidote to party reliance on private donations.

The impact of subsidies may vary along with the specific rules about which parties and/or individuals are eligible to receive them. These rules can be summarised under the headings of *payout threshold*, *payout principles*, and *purpose*.

*Payout threshold.* Just as most proportional representation electoral systems set electoral thresholds that are higher than the natural threshold, most party subsidy systems likewise establish eligibility rules which exclude some competitors. At their most generous, such exclusions are set very low, and only seek to exclude 'non-serious' competitors, but often the thresholds are much higher than this. The major distinction is between rules which confine payments to parties which win seats in parliament, and those which set a lower threshold. In the latter case, the threshold may be set in terms of the number of candidates nominated (as in France), or they may be based on a minimum vote total (Denmark), or on a minimum vote share (Germany). The payment threshold is the aspect of subsidy regimes that seems most likely to influence the possible effect of public funds on political competition. In countries where the payout threshold is significantly lower than the electoral threshold, political parties which fail to win legislative seats may nevertheless receive a vital infusion of funds that will allow them to return to fight another day. The presence of a lower threshold to receive public funding also gives small parties an alternate, and more easily obtainable, marker of success.

*Payout principles.* Rules to distribute funds among eligible parties are generally based on one or both of two principles: the idea that voters' preferences should determine the distribution of funds, and the idea that all parties (or at least all parliamentary parties) have equal obligations, and therefore similar costs, for communicating with the public. The most widely used option is to follow the first principle and divide a pre-determined subsidy in proportion to eligible parties' vote share; alternatively, some countries pay a pre-determined sum per vote, a method that makes the overall payment amount dependent on turnout levels. Instead of this, or more often in addition, some countries make a flat-rate payment to all

FIGURE 1  
THE LIKELY IMPACT OF PUBLIC SUBSIDIES ON PARTY COMPETITION

|                  |      | Payout Amounts                          |   |
|------------------|------|---|---|
|                  |      | Small                                   | Large                                   |
| Payout Threshold | Low  | Helps small parties and new competitors | Helps small parties and new competitors |
|                  | High | Little impact                           | Hurts small parties and new competitors |

parliamentary parties, or to all parties which win a certain number of parliamentary seats (for example, Austria). These flat-rate payments favour the smaller parliamentary parties. In that sense they may affect competition within the parliament, but because they are restricted to parties which win legislative seats, they penalise the smallest parties.

*Purpose.* Some countries designate the purposes of political subsidies, whereas others leave this up to the recipients. In some cases, subsidies are supposed to support political campaigns. In these cases, at least part of the subsidies may be paid as reimbursement for costs incurred (as in Canada). Elsewhere, funds are generally undesignated. Because money is so fungible, the designated purpose of subsidies probably affects party competition only in cases where funds are paid after an election, as reimbursement for campaign expenses. Established parties may be able to borrow money ahead of the election in anticipation of reimbursement, but few lenders are likely to invest in parties without a track-record.

The impact of subsidies on political competition may also depend on the amounts involved. Where the amounts are small, the impact will be lowest, though not necessarily negligible if the payout thresholds are low enough: for fledgling parties, even very small amounts of guaranteed income may provide a crucial lifeline (see Figure 1). In contrast, if the amounts are high and the thresholds are high, this clearly tips the table in favour of larger parties, something which may be increased by using pay-out schedules which privilege parties represented in the legislature. Although evaluating the changing relative size of subsidies is beyond the scope of this paper, it is still relevant to note that this is yet another way in which the impact of subsidies may vary according to their structures.

### The Development of Party Subsidies in European Democracies

To investigate the impact of public subsidies on party competition, this study examines political developments in 24 European Union member states (all but Cyprus) and Norway and Switzerland. It focuses on the countries that have implemented party subsidies at some point (a majority of the 26).

Most of these countries have similar parliamentary systems, and most use some variety of proportional representation electoral rules. In addition, many of the established democracies in this group have had similar party systems, with parties emerging out of similar conflicts and cleavages. In these countries, if anywhere, we should be able to observe the effects of a subtle institutional change such as the introduction of party subsidies.

Party subsidies caught on gradually in Europe. As noted above, they were first introduced in Europe by (West) Germany in 1959, where they were justified as part of the country's new-found commitment to party democracy. Of the 15 Western European countries that joined the European Union by 1995, only six had offered some kind of public subsidy for extra-parliamentary work by 1980, while 13 did so by 2003 (all but the United Kingdom and Luxembourg) (see Table 1). Most of the new democracies of Central Europe that were to join the European Union in 2003 also introduced party subsidies as part of their initial democratisation process. By 2003 all but Latvia offered such subsidies. In addition, another one of the new EU entrants, Malta, does not offer public subsidies for parties.

TABLE 1  
PARTY SUBSIDIES FOR EXTRA-PARLIAMENTARY WORK, YEAR INTRODUCED

|                |      |
|----------------|------|
| <b>1950s</b>   |      |
| Germany        | 1959 |
| <b>1960s</b>   |      |
| Sweden         | 1965 |
| Finland        | 1967 |
| <b>1970s</b>   |      |
| Norway         | 1970 |
| Italy          | 1974 |
| Austria        | 1975 |
| Spain          | 1978 |
| <b>1980s</b>   |      |
| Portugal       | 1983 |
| Greece         | 1984 |
| Denmark        | 1987 |
| France         | 1988 |
| Belgium        | 1989 |
| <b>1990s</b>   |      |
| Hungary        | 1990 |
| Czech Republic | 1991 |
| Slovakia       | 1992 |
| Poland         | 1993 |
| Slovenia       | 1994 |
| Estonia        | 1996 |
| Ireland        | 1998 |
| Lithuania      | 1999 |
| Netherlands    | 1999 |

*Sources* (for this and other tables): Alexander 1989; Byrne 1998; del Castillo 1989; Drysch 1993; 'Financement des Partis Politiques' 2005; Fink-Hafner 1997; Ikstens 2002; Klee 1993; Knapp 2002; Laver and Marsh 1999; Lewis 1998; Meirim 1994; Papdimitriou 1992; della Porta and Vannucci 2000; Suetens 1992; van Biezen 2000; Walecki 2003.

Despite the apparent policy contagion represented by this spread, policies in these countries display a great deal of variety in payment rules, purposes, and amounts. Of most interest for the investigation here are variations in payout thresholds: in 2003, nine of the countries which offered subsidies set the payout threshold at the same level as the electoral threshold; the other 12 set it lower than this (see Table 2). Moreover, payout thresholds have not been static within the countries, with six of them altering these at least once after the initial adoption (see Table 3). These variations provide opportunities to observe the possible impact of different types of subsidies.

TABLE 2  
ELECTORAL AND POLITICAL SUBSIDY PAYOUT THRESHOLDS IN EUROPE, 2003

|                       | Electoral threshold <sup>a</sup> | Payout threshold <sup>b</sup>   | Relative payout threshold <sup>c</sup> |
|-----------------------|----------------------------------|---|--|
| <b>Austria</b>        | 4%                               | 1% of lower house vote  | Lower                                  |
| <b>Belgium</b>        | (9.2%)                           | Parliamentary representation  | Same                                   |
| <b>Czech Republic</b> | 5%                               | 3% of lower house vote  | Lower                                  |
| <b>Denmark</b>        | 2%                               | At least 1,000 lower house votes  | Lower                                  |
| <b>Estonia</b>        | 5%                               | 5% of lower house vote and parliamentary representation   | Same                                   |
| <b>Finland</b>        | (5%)                             | Parliamentary representation  | Same                                   |
| <b>France</b>         | (50%)                            | Candidates in at least 50 districts who receive at least 1% of vote in first round of legislative elections | Lower                                  |
| <b>Germany</b>        | 5%                               | 0.5% of list vote for lower house   | Lower                                  |
| <b>Greece</b>         | 3%                               | 3% of lower house vote and candidates in 2/3rds of districts  | Same                                   |
| <b>Hungary</b>        | 5%                               | 1% of lower house vote  | Lower                                  |
| <b>Ireland</b>        | (10.8%)                          | 2% of lower house vote  | Lower                                  |
| <b>Italy</b>          | 4%                               | Parliamentary representation  | Same                                   |
| <b>Latvia</b>         | 5%                               | No direct subsidies   | n.a.                                   |
| <b>Lithuania</b>      | 5%                               | Parliamentary representation  | Same                                   |
| <b>Luxembourg</b>     | (14%)                            | No direct subsidies   | n.a.                                   |
| <b>Malta</b>          | (20%)                            | No direct subsidies   | n.a.                                   |
| <b>Netherlands</b>    | (0.5%)                           | Parliamentary representation  | Same                                   |
| <b>Norway</b>         | 4%                               | 2.5% of lower house vote plus candidates in half of districts   | Lower                                  |
| <b>Poland</b>         | 5%                               | Parliamentary representation  | Same                                   |
| <b>Portugal</b>       | (6.7%)                           | 2% of lower house vote  | Lower                                  |
| <b>Slovakia</b>       | 5%                               | 3% of lower house vote  | Lower                                  |
| <b>Slovenia</b>       | (3%)                             | 1% of lower house vote plus candidates in at least 3/4 of districts   | Lower                                  |
| <b>Spain</b>          | 3%                               | 3% of lower house vote  | Same                                   |
| <b>Sweden</b>         | 4%                               | 2.5% of lower house vote in one of the last two elections   | Lower                                  |
| <b>Switzerland</b>    | 9%                               | No direct subsidies   | n.a.                                   |
| <b>United Kingdom</b> | (35%)                            | No direct subsidies   | n.a.                                   |

<sup>a</sup>Or effective threshold in parentheses if no legal threshold. Effective threshold from Norris (2005), except Latvia, Luxembourg, Malta (calculated by author).

<sup>b</sup>Minimum Level. Some types of payments may have higher thresholds.

<sup>c</sup>Payout Threshold Compared to Electoral Threshold.

Sources: as Table 1.

TABLE 3  
CHANGES IN PAYOUT THRESHOLDS FOR PARTY SUBSIDIES, 1960–2005

|                       | Payout threshold (minimum level)  | Direction of change |
|-----------------------|---|---------------------|
| <b>Czech Republic</b> | 1991 at least 1.5% of vote in lower house elections                                       |                     |
|                       | 1995 at least 3% of lower house vote  | Increase            |
| <b>France</b>         | 1989 seats in parliament  |                     |
|                       | 1990 candidates in at least 75 districts  | Decrease            |
|                       | 1992 candidates in at least 50 districts  | Decrease            |
|                       | 2003 candidates with at least 1% of the vote in at least 50 districts                     | Increase            |
| <b>Germany</b>        | 1959 lower house seats  |                     |
|                       | 1967 at least 2.5% of list vote   | Decrease            |
|                       | 1969 at least 0.5% of list vote   | Decrease            |
| <b>Norway</b>         | 1970 All registered parties   |                     |
|                       | 1975 at least 2.5% of lower house vote plus candidates in at least half of districts      | Increase            |
|                       | 2005 All registered parties   | Decrease            |
| <b>Portugal</b>       | 1983 lower house seats  |                     |
|                       | 1993 at least 2% of vote  | Decrease            |
| <b>Sweden</b>         | 1965 at least 4% of lower house vote, or at least 12% in one of the multimember districts |                     |
|                       | 1972 legislative seats, or at least 2.5% in one of the last two elections                 | Decrease            |

### The Impact of Subsidies on Political Competition

As noted above, political analysts have disagreed about the impact of political subsidies. Some have seen them as tools for reducing political competition, while others have seen them as stimulants to small parties. The only systematic attempt to analyse subsidies' impact concluded that subsidies play a negligible role in the midst of all the other factors which affect political competition (Pierre *et al.* 2000). While that study did not detail exactly how the authors were counting the number of parties, clearly they were thinking in terms of parties with legislative seats (see Figure 1).

However, this may be too narrow a definition if we are looking for evidence of the impact of subsidies on political competition. The cartel party argument is about the stifling of political competition and the consequent reduction of voters' alternatives. We cannot test this argument only by looking at which parties succeeded in winning legislative representation, because there are many explanations for electoral success. Instead, if we want to know about the suppression or encouragement of competition, we should also be interested in the choices that voters are being offered. That is why this study includes an examination of parties that do not win any legislative seats. This is admittedly an unusual way to view party systems. These smallest parties are the neglected also-rans in most studies of democratic competition. Relegated to the 'other' category in most election reports, they are the parties that only rarely rise to prominence by unexpectedly capturing national legislative seats. A few of them may get wider

publicity in other ways, for instance, extremist parties or 'stunt' parties that manage to capture the attention of journalists desperate for a new story during a long campaign. But other than these eye-catching cases, parties that fail to meet Sartori's test of 'relevance' (coalition blackmail potential) are generally ignored by political scientists and pundits alike.

Yet when the object is to assess the effects of public subsidies on political competition, there is good reason to look at these smaller parties, since the cartel party hypothesis argues that subsidies will reduce the impact of those seeking to challenge the political status quo, whether these challengers are entirely new parties, or factions that might break off from existing parties. Many such challengers might be very small to begin with, and their ability to survive long enough to contest multiple elections may be crucial to their credibility and electoral appeal. If so, if public subsidies either shut out or sustain the very small parties, they could significantly affect the nature of a country's political life. In addition, the continued participation of parties with only limited followings may send an important message to those who want to change the current political system: they demonstrate the possibilities (if also the limits) of getting out new messages by means of electoral competition. As such, their experiences probably influence the calculations of those who may consider starting new parties (Hug 2000). Finally, even small parties which never achieve the goal of winning legislative representation may nevertheless provide legitimacy (or at least, a democratic fig leaf) to the entire system of representative government. The existence of unpopular alternatives allows the parties that do enjoy electoral success to rightly claim that voters were given a broad choice, and that the continued dominance of a limited number of parties reflects the popular will, and not just the ability of incumbents to manipulate rules and public resources in order to shut out other views. From this perspective, the presence of a certain number of 'micro-parties' may be an important indicator of democratic health, because they show that fringe groups implicitly endorse the system of electoral competition by using elections as a platform for their views.

Of course, beyond a certain point the proliferation of small parties might be an indicator, and perhaps also a source, of problems within a political system. As Sartori and others have warned, an excess of parties, and particularly a proliferation of small parties, may make it difficult to govern (Sartori 1976). While Sartori was primarily concerned with parties that gain legislative seats, an increase in votes for even smaller parties could also present a threat, albeit a more subtle one. Votes for parties which do not win seats are wasted votes. Indeed, some of those who endorse parties which lack a winning track record may be deliberately 'wasting' their votes in order to protest against the larger parties. In fact, some might go so far as to argue that the proliferation of small parties after the introduction of subsidies would be a sign of cartel parties at work, since the established parties would prefer to see the energies of potential opponents channelled into multiple

organisations rather than into a single party that might pose a serious threat to entrenched political alternatives. In other words, even if we find that subsidies seem to encourage competition rather than stifle it, it is not clear that we can reject the idea that these public policy tools are crafted for the benefit of established competitors. It is, however, probably symptomatic of the different political climates that political analysts of the late twentieth and early twenty-first centuries have been more worried about the reduction of competition than their mid-century predecessors, who were haunted by the proliferation of parties and the collapse of Weimar democracy.

When trying to assess the political impact of public subsidies, there are various ways to judge changes in the competitive environment (the dependent variable). As noted above, one of the standard approaches to evaluating party system change looks at changes in the effective number of parliamentary parties. However, this measure is not the best one for this investigation, because it considers only parties with parliamentary representation, and thus measures political success rather than political options. The effective number of electoral parties is a little better in this regard, but again it is an index that mostly tells us about the size of the largest parties, one that is only minimally affected by the small parties which are of greatest interest here. Thus, the study uses three alternate measures of party competition. First, it looks at the share of vote going to parties that win less than 5% of the vote. Second, it looks at the number of parties winning legislative seats. Third, it looks at the number of parties able to capture enough support to be considered more than 'vanity' parties, here defined as parties that win at least 0.5% of the vote. (Independents are not counted in these totals.) The logic in all these measures is to use indicators that may over-emphasise the importance of small parties, because if subsidies are either stifling competition or encouraging the proliferation of small alternatives, these effects are likely to be subtle, and changes are most likely to show up at the margins of the political system.

One of the difficulties in investigating the impact of subsidies on the party system is that many other factors also contribute to the availability of political alternatives, including electoral system rules and societal changes. Another of the difficulties is that so many parliamentary democracies now have some form of subsidies, which means there is not much scope to compare countries with and without subsidies. The current investigation tries to circumvent these problems by using three strategies to look for signs that subsidies have affected political competition. It begins with cross-national comparisons, then moves to two types of longitudinal comparisons within countries, first examining countries that have introduced subsidies, then looking at those which have changed payout thresholds one or more times since they were introduced. Does any of the data support either the hypothesis that public subsidies stimulate small party activity, or the alternate hypothesis that higher payout thresholds for subsidies freeze out such parties?

*Cross-national Comparisons*

The study begins by looking at the competitive environment in 26 European countries, separating out the new democracies of East-Central Europe from their more established counterparts in Western Europe. Tables 4 and 5 group countries according to their electoral thresholds, showing average performance on the various indicators of party competition in the two previous elections. They list countries in descending order of electoral threshold because electoral thresholds are known to have such an important impact on party systems, and on the decisions of voters and potential political competitors. These tables provide little support for either hypothesis about how public subsidies may affect party competition at the margins. Countries with similar electoral thresholds show no signs that party subsidies systematically affect competition. Most strikingly, among the established democracies with a 4% electoral threshold, it is Italy, the country with the highest payout threshold, that has the largest number of successful parties. Likewise, Switzerland and Belgium have similar effective thresholds, but differ in terms of direct subsidies: Belgium pays subsidies to all parties with parliamentary representation; Switzerland does not have

TABLE 4  
PAYOUT THRESHOLDS AND PARTY SUCCESS IN ESTABLISHED DEMOCRACIES

|                       | Electoral threshold <sup>a</sup> | Relative payout threshold <sup>b</sup> | Small party vote share <sup>c</sup> | Number of winning parties <sup>d</sup> | Total number of parties <sup>e</sup> |
|-----------------------|----------------------------------|--|-------------------------------------|--|--------------------------------------|
| <b>France</b>         | (50%)                            | Lower                                  | 17.5                                | 10                                     | 14                                   |
| <b>United Kingdom</b> | (35%)                            | No direct subsidies                    | 9.3                                 | 8.5                                    | 9.5                                  |
| <b>Malta</b>          | (20%)                            | No direct subsidies                    | .9                                  | 2                                      | 3                                    |
| <b>Luxembourg</b>     | (14%)                            | No direct subsidies                    | 5.6                                 | 5.5                                    | 6                                    |
| <b>Ireland</b>        | (10.8%)                          | Lower                                  | 11.2                                | 7.5                                    | 7.5                                  |
| <b>Belgium</b>        | (9.2%)                           | Same                                   | 12.7                                | 11                                     | 12.5                                 |
| <b>Switzerland</b>    | (9%)                             | No direct subsidies                    | 12.6                                | 13.5                                   | 12.5                                 |
| <b>Portugal</b>       | (6.7%)                           | Lower                                  | 6.3                                 | 5                                      | 6                                    |
| <b>Finland</b>        | (5%)                             | Same                                   | 7.2                                 | 9                                      | 6.5                                  |
| <b>Germany</b>        | 5%                               | Lower                                  | 6.5                                 | 6                                      | 6.5                                  |
| <b>Austria</b>        | 4%                               | Lower                                  | 3.6                                 | 4                                      | 6.5                                  |
| <b>Italy</b>          | 4%                               | Same                                   | 11.9                                | 10.5                                   | 11                                   |
| <b>Norway</b>         | 4%                               | Lower                                  | 5.7                                 | 8.5                                    | 9                                    |
| <b>Sweden</b>         | 4%                               | Lower                                  | 9.9                                 | 7                                      | 7.5                                  |
| <b>Greece</b>         | 3%                               | Same                                   | 8.8                                 | 4.5                                    | 5.5                                  |
| <b>Spain</b>          | 3%                               | Same                                   | 14.5                                | 11.5                                   | 10                                   |
| <b>Denmark</b>        | 2%                               | Lower                                  | 11.5                                | 9                                      | 14.5                                 |
| <b>Netherlands</b>    | (0.5%)                           | Same                                   | 7.8                                 | 9.5                                    | 9.5                                  |

<sup>a</sup>As for Table 2.

<sup>b</sup>2003.

<sup>c</sup>Share of parties winning less than 5% of vote. Average for most recent two elections pre-2004.

<sup>d</sup>Number of parties winning legislative seats. Average for most recent two elections pre-2004.

<sup>e</sup>Number of parties winning at least 0.5% vote share. Average for most recent two elections pre-2004.

TABLE 5  
 PAYOUT THRESHOLDS AND PARTY SUCCESS IN NEW DEMOCRACIES<sup>a</sup>

|                       | Electoral threshold | Relative payout threshold | Small party vote share | Number of winning parties | Total number of parties |
|-----------------------|---------------------|---------------------------|------------------------|---------------------------|-------------------------|
| <b>Czech Republic</b> | 5%                  | Lower                     | 11.7                   | 5                         | 11.7                    |
| <b>Hungary</b>        | 5%                  | Lower                     | 11.3                   | 4.5                       | 8.0                     |
| <b>Slovakia</b>       | 5%                  | Lower                     | 15                     | 6.7                       | 12.7                    |
| <b>Estonia</b>        | 5%                  | Same                      | 6.7                    | 6.5                       | 10.5                    |
| <b>Lithuania</b>      | 5%                  | Same                      | 13.6                   | 8.5                       | 12.5                    |
| <b>Poland</b>         | 5%                  | Same                      | 8.4                    | 6.5                       | 9.5                     |
| <b>Latvia</b>         | 5%                  | No direct subsidies       | 14                     | 6                         | 13                      |
| <b>Slovenia</b>       | (3%)                | Lower                     | 14                     | 7.5                       | 11.5                    |

<sup>a</sup>See Table 3 for explanation of categories.

direct public subsidies for parties. Despite these differences, the two countries score similarly on all three of the measures of party competition.

The message for the new Central European democracies is very similar, and easily observed because seven of the eight countries share a 5% electoral threshold. In most of these countries there were a large number of competitors in the initial democratic elections in the early 1990s, as groups and voters tested uncharted political waters. Here, if anywhere, we would expect to see the impact of variations in the payout threshold. Yet in these countries we see, at most, a very slight effect. As would be expected if subsidies encourage the creation and survival of small party challengers, the small party vote share is slightly higher in the countries where the payout threshold is lower. But offsetting this is the fact that there are more legislative parties in the countries with the higher payout thresholds. Moreover, Latvia, the one country in this group without direct public subsidies, looks very similar to the other countries on all three measures. Thus, in contrast to the findings in Ikstens *et al.* (2002), the current data do not show much support for the idea that public funding is increasing party competition in these new democracies.

### *Longitudinal Comparisons*

Of course, there are many factors beyond electoral and payout thresholds that may affect political competition and party system change, so much may be hidden in these simple comparisons. To try to take account of some of these factors, we can look at longitudinal data within single countries, to see whether the introduction of direct political subsidies leads to similar changes in each country's party competition. Table 6 presents the results for the 11 European parliamentary democracies for which we have data on elections before and after introduction of subsidies. (France will be discussed separately.) Where possible, the dependent variables give averages for the three elections prior to, and after, the introduction of subsidies, under the assumption that the introduction of subsidies may have a gradual impact.

TABLE 6  
EFFECTS OF SUBSIDY INTRODUCTION ON PARTY COMPETITION<sup>a</sup>

|                    | Relative<br>payout<br>threshold | Change:<br>Small party<br>vote share | Change:<br>Number of<br>winning parties | Change:<br>Total number<br>of parties | Trend of two<br>or more<br>indicators |
|--------------------|---------------------------------|--------------------------------------|---|---------------------------------------|---------------------------------------|
| <b>Austria</b>     | Lower                           | Same                                 | Same                                    | Increase                              | Same                                  |
| <b>Denmark</b>     | Lower                           | Increase                             | Decrease                                | Same                                  | Unclear                               |
| <b>Germany</b>     | Lower                           | Increase                             | Decrease                                | Decrease                              | Decrease                              |
| <b>Ireland</b>     | Lower                           | Decrease                             | Same                                    | Decrease                              | Decrease                              |
| <b>Norway</b>      | Lower                           | Increase                             | Increase                                | Increase                              | Increase                              |
| <b>Sweden</b>      | Lower                           | Increase                             | Decrease                                | Increase                              | Increase                              |
| <b>Belgium</b>     | Same                            | Decrease                             | Decrease                                | Decrease                              | Decrease                              |
| <b>Finland</b>     | Same                            | Increase                             | Increase                                | Increase                              | Increase                              |
| <b>Italy</b>       | Same                            | Increase                             | Increase                                | Increase                              | Increase                              |
| <b>Netherlands</b> | Same                            | Decrease                             | Decrease                                | Decrease                              | Decrease                              |
| <b>Portugal</b>    | Same                            | Decrease                             | Decrease                                | Decrease                              | Decrease                              |

<sup>a</sup>See Table A1 for details.

The findings from this examination show no systematic pattern in the way that political competition changes after the introduction of direct subsidies for parties (for more details, see Appendix Table A1). In five of the countries, the trend in at least two of the three indicators is towards decreased competition, but in four other countries at least two of the three indicators show increased competition. One country, Austria, showed no change in two of the indicators, while the indicators for Denmark went in all directions.

Yet given that the details of subsidy schemes vary widely, there is no reason to expect that all subsidies will have a similar impact. Thus, it makes sense to distinguish between different types of rules for eligibility and payout practices. Conceivably the most important consideration is the relative height of the subsidy payout threshold in comparison with the electoral threshold. Where the payout threshold is lower than the electoral one, political subsidies might be expected to play a more important role in encouraging small parties to compete, and in helping them to survive, because this lower threshold enables a party to win valuable resources and credibility even when it does not win parliamentary seats. But in fact, there is no evidence from these cases that the relative height of the payout threshold affected party competition. Movement in the measures of competition for the countries in the top group in Table 6, those where the payout threshold is lower than the electoral threshold, are not much different than the measures for the countries in the bottom group, where the two thresholds are identical. This suggests that systems which introduce subsidies with payout thresholds lower than the electoral threshold are no more likely than others to show an increase in the number or success of small party competitors.

Finally, we can also investigate the impact of the payout threshold by looking at four countries where payout thresholds changed after their initial introduction (see Appendix Table A2). In three of these cases (Germany, Portugal and Sweden), the thresholds were lowered after initially being set at

the same height as the electoral threshold. In Germany and Portugal, this reduction was ordered by the constitutional courts, the kind of scenario that lends credence to the idea that established parties design subsidy regimes to exclude new challengers. Yet in none of these countries was there any sign that the lower threshold for subsidies helped to stimulate the proliferation of new competitors; in fact, in all three countries competition seemed to have declined after payout thresholds were reduced (see Table 7). In the fourth country, Norway, the payout threshold was increased to a 2.5% vote share after initially being open to all registered parties. Here, too, the increase in the payout threshold did not have the expected effect: after access to the public funds was tightened, the number of parties receiving at least 0.5% of the vote increased, as did the vote share for parties receiving less than 5% of the vote.

France is the one apparent exception to this general picture of the low impact of subsidies and of relative payout thresholds. Changes in the French party system cannot easily be compared with other countries in this group, because French party identities traditionally have been much more fluid than elsewhere. This situation is promoted by the two-round electoral system, and by the fact that candidates run for office in individual districts, and thus do not need the endorsement of a big party to have a plausible chance of succeeding. As a result of these differences, France has been excluded from earlier analyses in this paper. However, it is nevertheless interesting to try to assess the impact of shifting subsidies in France.

One way to avoid some of the difficulties of figuring out how to count the shifting number of French electoral alternatives is to let the French state do the counting, using official statistics on the number of parties receiving party subsidies. Direct subsidies were first introduced for French legislative elections in 1989. The statute was modified in 1990, after constitutional court intervention, to make subsidies payable even to parties which did not win seats. Under the 1990 law, parties which nominated candidates in at least 75 (later 50) districts were eligible for funding in proportion to the votes received. In 2003 this was raised to require that the parties receive at least 1% of the vote in 50 districts. The official statistics documenting the number of groups and parties which qualified to receive state funds suggest

TABLE 7  
EFFECTS OF PAYOUT THRESHOLD CHANGE ON PARTY COMPETITION<sup>a</sup>

|                      | Change:<br>Payout<br>threshold | Change:<br>Small party<br>vote share | Change:<br>Number of<br>winning parties | Change:<br>Total number<br>of parties | Trend of two<br>or more<br>indicators |
|----------------------|--------------------------------|--------------------------------------|---|---------------------------------------|---------------------------------------|
| <b>Norway 1975</b>   | Increase                       | Increase                             | Same                                    | Increase                              | Increase                              |
| <b>Germany 1967</b>  | Decrease                       | Decrease                             | Same                                    | Decrease                              | Decrease                              |
| <b>Portugal 1993</b> | Decrease                       | Decrease                             | Decrease                                | Decrease                              | Decrease                              |
| <b>Sweden 1972</b>   | Decrease                       | Decrease                             | Same                                    | Decrease                              | Decrease                              |

<sup>a</sup>See Table A1 for details.

that lowering the subsidy payout threshold may indeed have promoted the proliferation of competitors. The number of parties in continental France receiving such subsidies rose from 23 in the 1993 legislative elections, to 25 in 1997, to 32 in 2002 (CNCCFP 2005). At least in this one case, the structure of the subsidies seems to have encouraged an expansion in the number of organised competitors. The impact of subsidies may also have been magnified by other aspects of French party finance laws, including the 1995 ban on corporate donations, which may have boosted the relative importance to the parties of these public funds.

## **Conclusion**

This study has taken a detailed look at the possible impact of party subsidies on political competition, focusing on the often neglected margins of elections to assess the merits of competing claims about the effects of subsidies. This investigation has found little evidence to support the idea that subsidies have much of an effect in either direction, at least in most situations. Changes in the vote share for parties and in the number of competitors have not coincided in any systematic way with the introduction of party subsidies, or in changes in the payout threshold. A possible explanation for this is that subsidies do not markedly shift the relative balance of resources between the parties. While the biggest parties are undoubtedly the biggest recipients of public subsidies under any sets of rules, and while they may like the fact that state funds help to insulate them from pressure from donors, they are generally also the biggest recipients of other sources of funds. With or without subsidies, new challengers always have been unlikely to make a breakthrough unless established parties implode of their own accord, or unless new issues come to the fore which established parties are unable to integrate into their own platforms, and which are pressing enough to mobilise citizens and thus to provide new parties with the energy and resources they need to overcome inequalities in the electoral institutions.

Because this investigation did not look closely at the precise rules for distributing public subsidies to parties, it did not examine possible impacts in systems which pay different subsidy rates to parties with and without legislative seats, or at impacts linked to subsidy amounts. It also did not look at the effects of changes in other types of thresholds, such as those which distinguish between parties with different numbers of legislative seats. This latter type of rule may have a big effect on the ways that parties organise within legislatures. For instance, in the Italian subsidy system of the late 1990s, a change in subsidy rules to allow payments to party groups with as few as one representative may have encouraged party splits (or, at least, have done nothing to discourage such splits) (della Porta and Vanucci 2000). This example and the French one cited earlier also suggest that the impact of subsidies may be felt most where there is a tradition of party splits and shifting party alliances. So perhaps further research and more precise

differentiation of various subsidy regimes might still sustain the claim that subsidies affect the behaviour of either voters or politicians enough to change the competitive environment, but so far that evidence has proven to be quite elusive. In short, in most cases subsidies represent an instance of the dictum, 'to those who have, shall be given', but that does not mean that the subsidies themselves are a main factor in hindering the emergence of new groups.

These findings indicate that it is prudent to take some of the cartel party inferences with a grain of salt. The growing importance of public subsidies for political parties is indeed an important part of the changing relations between parties, citizens and the state. Those who are designing subsidy policies may want to take account of how subsidies can affect relations with citizens, for instance by setting overall payment levels dependent on turnout, not vote share, so that parties have an extra incentive to mobilise their supporters. But just because these subsidies may be adopted by parties which are seeking to preserve their power, it does not necessarily follow that subsidies can be blamed for squeezing out new competitors. For one thing, in many countries the threshold for receiving payments is much lower than the electoral threshold, which is hardly the hallmark of 'cartel' dominance. In some cases, the lower threshold has been imposed on the parties by courts, but that is by no means universally so. More importantly, even if established parties did enact these subsidies in the hope that they would act as barriers to competition, there is no evidence that the subsidies have made it any more difficult for new and outsider parties to accomplish the (already difficult) task of getting a sympathetic audience for their views.

In this sense, those who portray subsidies as a tool for maintaining the political status quo may be throwing a red herring into debates about policies for regulating the use of money in politics. Public subsidies have become a popular instrument for diluting the impact of private money on politics, often being offered as the carrot which goes along with less welcome transparency requirements. In light of this, we need to take seriously the cartel party argument that subsidies are instruments which create new imbalances even as they address old ones. But, in fact, it is easier to find evidence that some kinds of subsidy schemes encourage party fragmentation than to find evidence that subsidies stifle competition. It is not clear whether subsidies can achieve more desirable goals, such as reducing perceived political corruption, but at the least the downside of subsidies does not seem to be as great as some have suggested.

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## Appendix

TABLE A1  
EFFECTS OF SUBSIDY INTRODUCTION ON PARTY COMPETITION

|             | Before or after subsidies | Small party vote share <sup>a</sup> | Number of winning parties <sup>a</sup> | Total number of parties <sup>a</sup> |
|-------------|---------------------------|-------------------------------------|--|--------------------------------------|
| Austria     | Pre                       | 2.2                                 | 3.0                                    | 4.0                                  |
|             | Post                      | 2.2                                 | 3.0                                    | 4.3                                  |
| Belgium     | Pre                       | 14.5                                | 12.0                                   | 14.0                                 |
|             | Post                      | 12.9                                | 11.7                                   | 13.0                                 |
| Denmark     | Pre                       | 12.7                                | 9.3                                    | 11.0                                 |
|             | Post                      | 13.7                                | 8.3                                    | 11.0                                 |
| Finland     | Pre                       | 4.6                                 | 7.3                                    | 8.0                                  |
|             | Post                      | 7.1                                 | 8.3                                    | 9.3                                  |
| Germany     | Pre                       | 10.3                                | 7.0                                    | 10.0                                 |
|             | Post                      | 4.9                                 | 5.0                                    | 7.3                                  |
| Ireland     | Pre                       | 10.3                                | 7.0                                    | 8.0                                  |
|             | Post                      | 8.8                                 | 7.0                                    | 7.0                                  |
| Italy       | Pre                       | 11.0                                | 9.0                                    | 9.0                                  |
|             | Post                      | 16.5                                | 11.7                                   | 10.3                                 |
| Netherlands | Pre                       | 10.2                                | 10.0                                   | 10.0                                 |
|             | Post                      | 8.6                                 | 9.7                                    | 9.7                                  |
| Norway      | Pre                       | 4.5                                 | 5.7                                    | 7.7                                  |
|             | Post                      | 14.8                                | 7.0                                    | 8.3                                  |
| Portugal    | Pre                       | 10.0                                | 5.0                                    | 9.0                                  |
|             | Post                      | 9.1                                 | 4.7                                    | 7.7                                  |
| Sweden      | Pre                       | 3.9                                 | 5.7                                    | 5.7                                  |
|             | Post                      | 5.5                                 | 5.0                                    | 6.7                                  |

<sup>a</sup>Average of three previous and three subsequent elections, except where unavailable or non-comparable: Germany (pre = 1953 and 1957), Ireland (post = 2002), Netherlands (post = 2002, 2003).

TABLE A2  
EFFECTS OF CHANGES OF PAYOUT THRESHOLD

| Country<br><i>Direction of change in payout threshold</i> | Before or after change | Change: Small party share <sup>a</sup> | Change: Number of winning parties <sup>a</sup> | Change: Total number of parties <sup>a</sup> |
|---|------------------------|--|--|--|
| Norway  | Pre                    | 4.8                                    | 6.3  | 7.7  |
| <i>Increase 1975</i>                                      | Post                   | 15.4                                   | 6.3  | 8.3  |
| Germany   | Pre                    | 4.6                                    | 5.0  | 7.5  |
| <i>Decrease 1967</i>                                      | Post                   | 2.4                                    | 5.0  | 6.7  |
| Portugal  | Pre                    | 10.9                                   | 5.0  | 7.3  |
| <i>Decrease 1993</i>                                      | Post                   | 5.7                                    | 4.7  | 6.3  |
| Sweden  | Pre                    | 7.1                                    | 5.0  | 7.0  |
| <i>Decrease 1972</i>                                      | Post                   | 3.7                                    | 5.0  | 6.0  |

<sup>a</sup>Average of three previous and three subsequent elections, except where subsidies were changed less than three elections after introduction: Germany (pre = 1961, 1965), Sweden (pre = 1968, 1970).

## Note

1. Other tools with similar aims include providing indirect subsidies, such as free media access, and capping party expenditures to discourage political funding 'arms races'.

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