

COSTS OF DEMOCRACY

POLITICAL FINANCE IN INDIA

DEVESH KAPUR & MILAN VAISHNAV

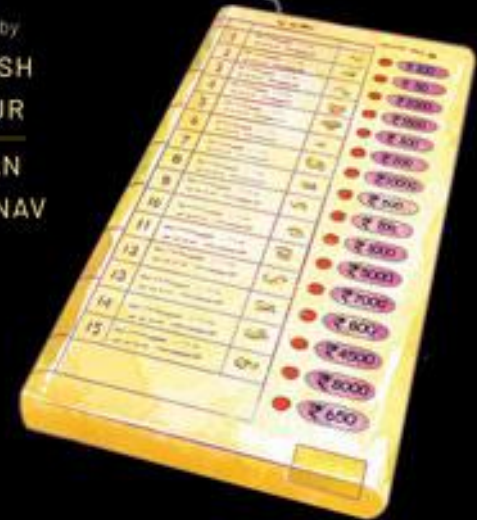
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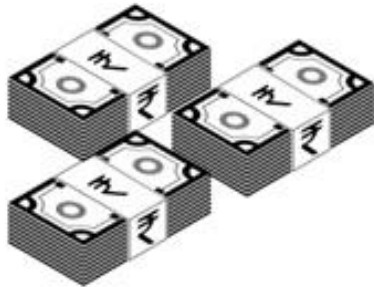
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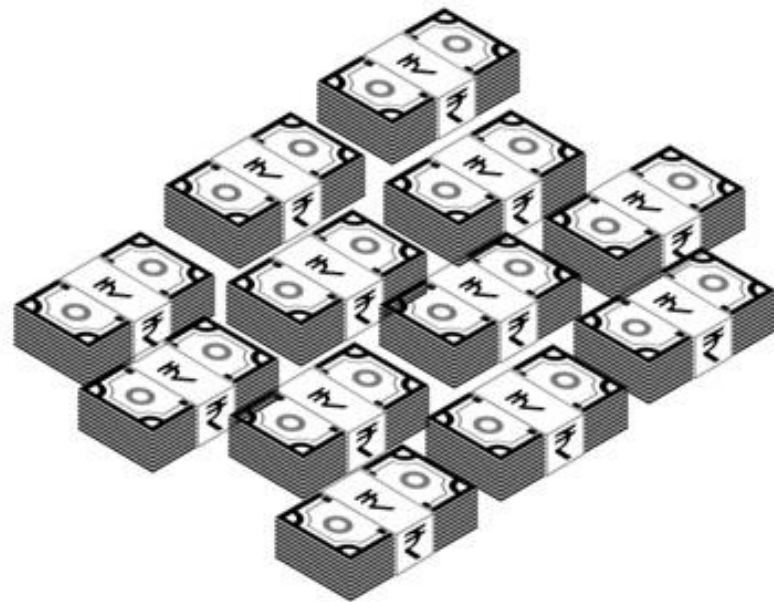
Why do we care?

- Economically significant
 - India 2014: estimated \$5 bn in spending (up from \$2 bn in 2009)
 - U.S. 2015-16: \$11.1 bn in spending
- Selection effect

Candidates with serious criminal cases have a massive financial advantage



Median clean candidate:
900,000 rupees



Median criminal candidate:
4,100,000 rupees

Why do we care?

- Economically significant
 - India 2014: estimated \$5 bn in spending
 - U.S. 2015-16: \$11.1 bn in spending
- Selection effect
- Rent-seeking and quid pro quos
- Inequality
- Citizen confidence

Money in politics: *de jure* vs. *de facto*

- In many developing democracies:
 - Weak enforcement, limited transparency, uneven disclosure norms/laws, infrastructure challenges incentivize undocumented money
 - Low levels of organized interest group funding
- Key difference between developed and developing democracies: role of “black” money
- In India, true flows are thought to dwarf reported flows by orders of magnitude

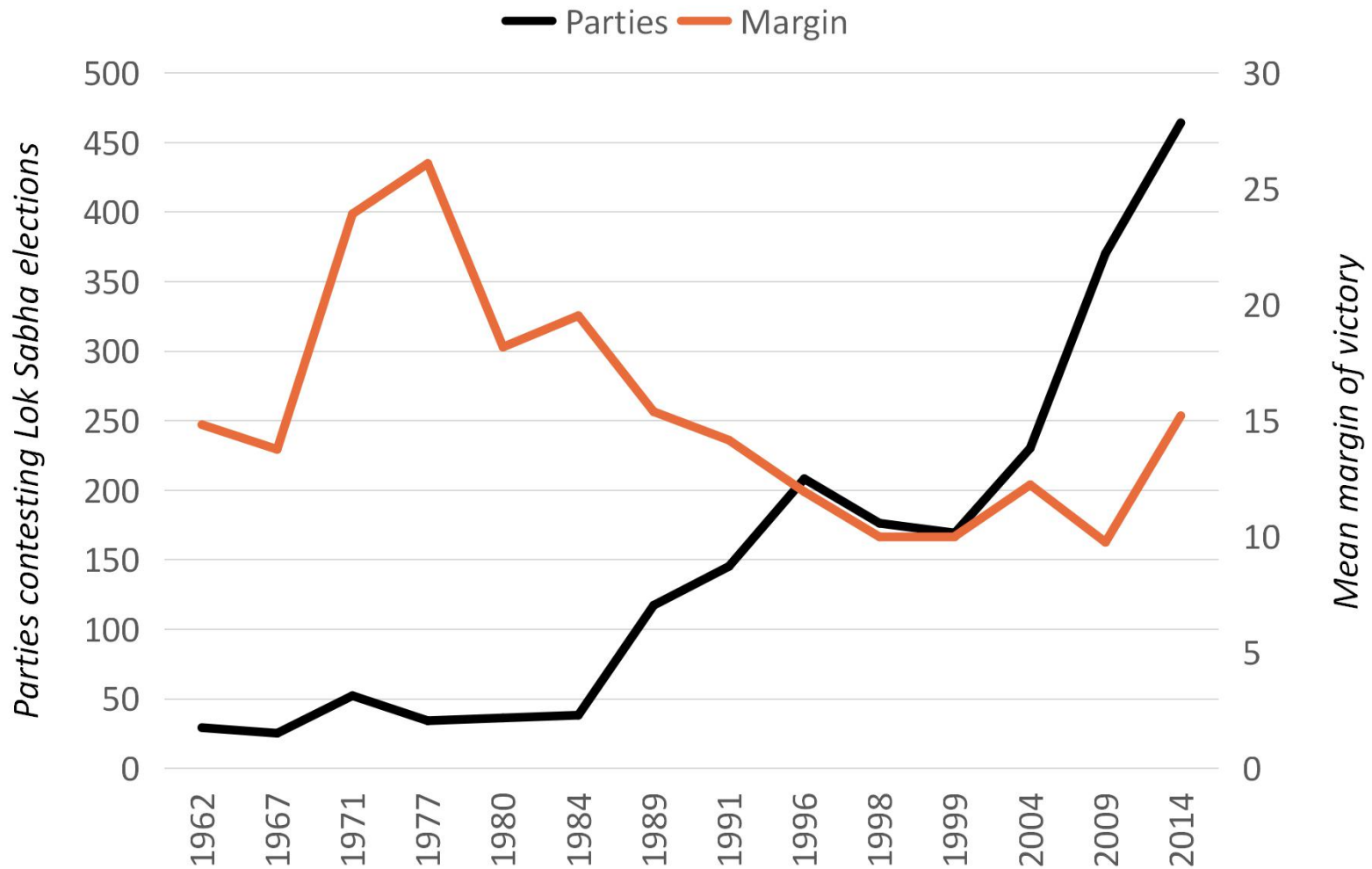
Motivating questions

1. What is the institutional/regulatory context governing money in politics?
2. How much do candidates matter?
3. What do campaigns spend on—and why?
4. How does money operate at, and interact with, different levels of government?
5. What do we do about it?



What is the institutional/regulatory context governing money in politics?

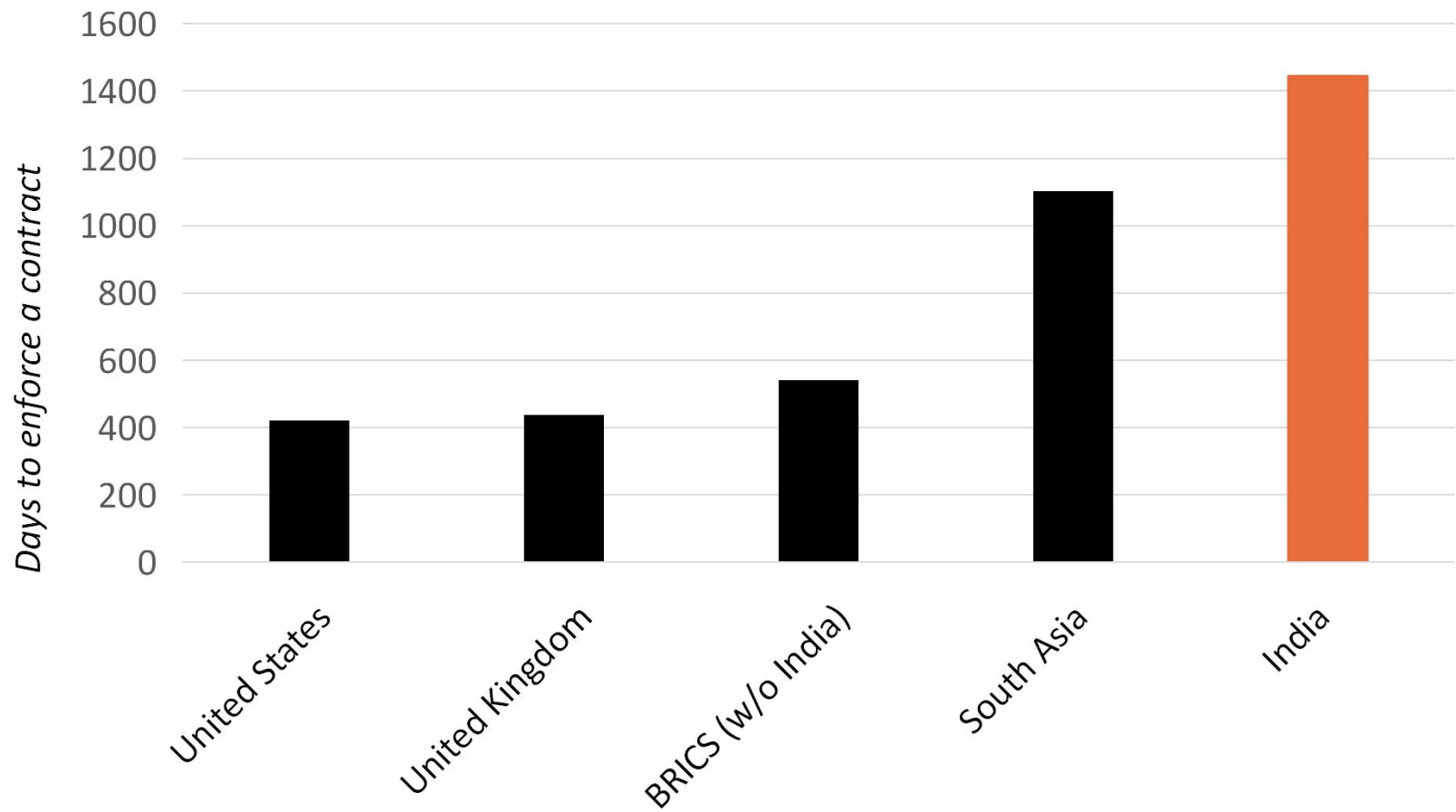
Intense competition



License Raj redux



Weak rule of law



Weakened regulatory regime



No transparency for political contributions



No independent audit of political parties

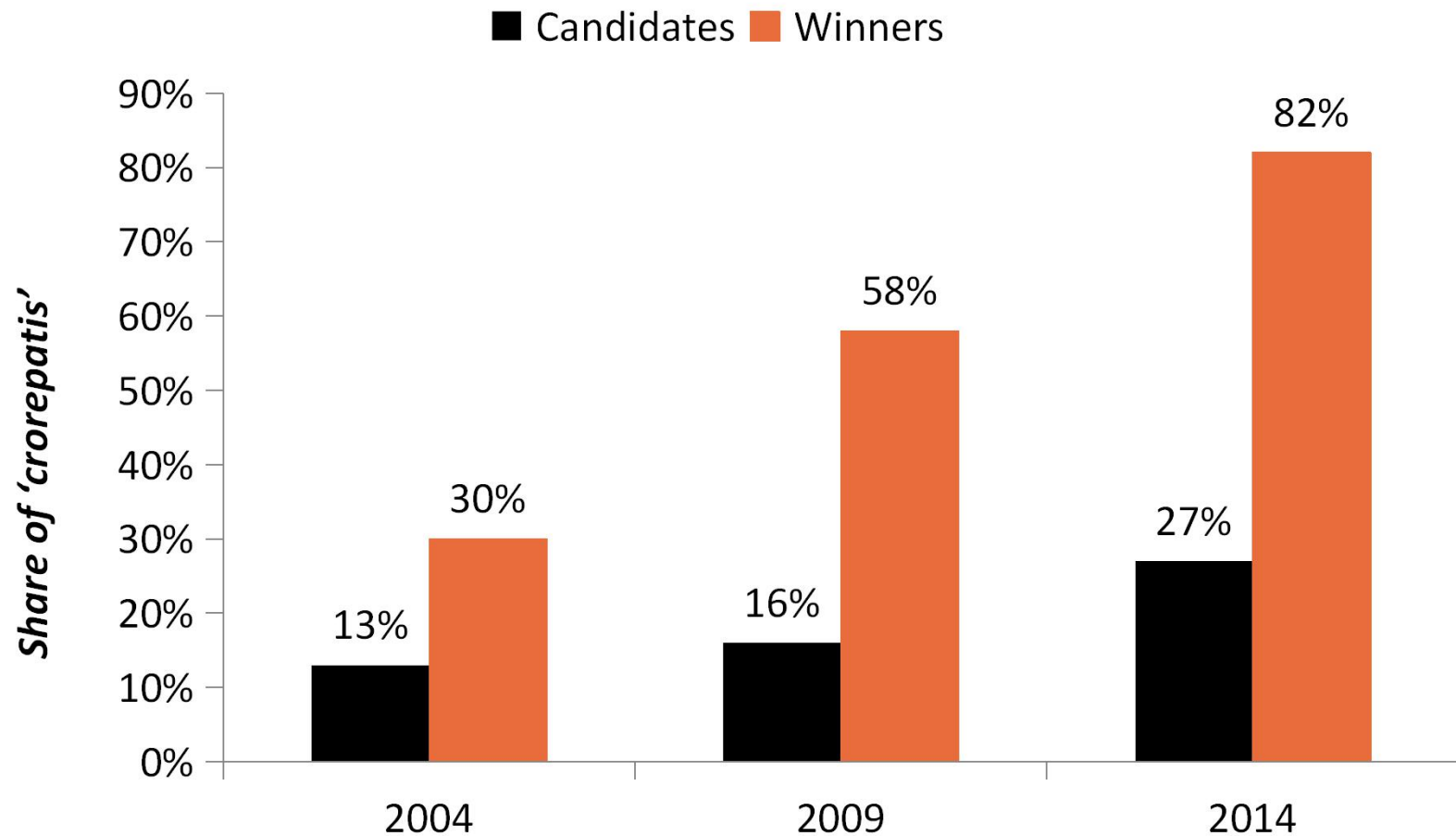


Outdated regulatory framework

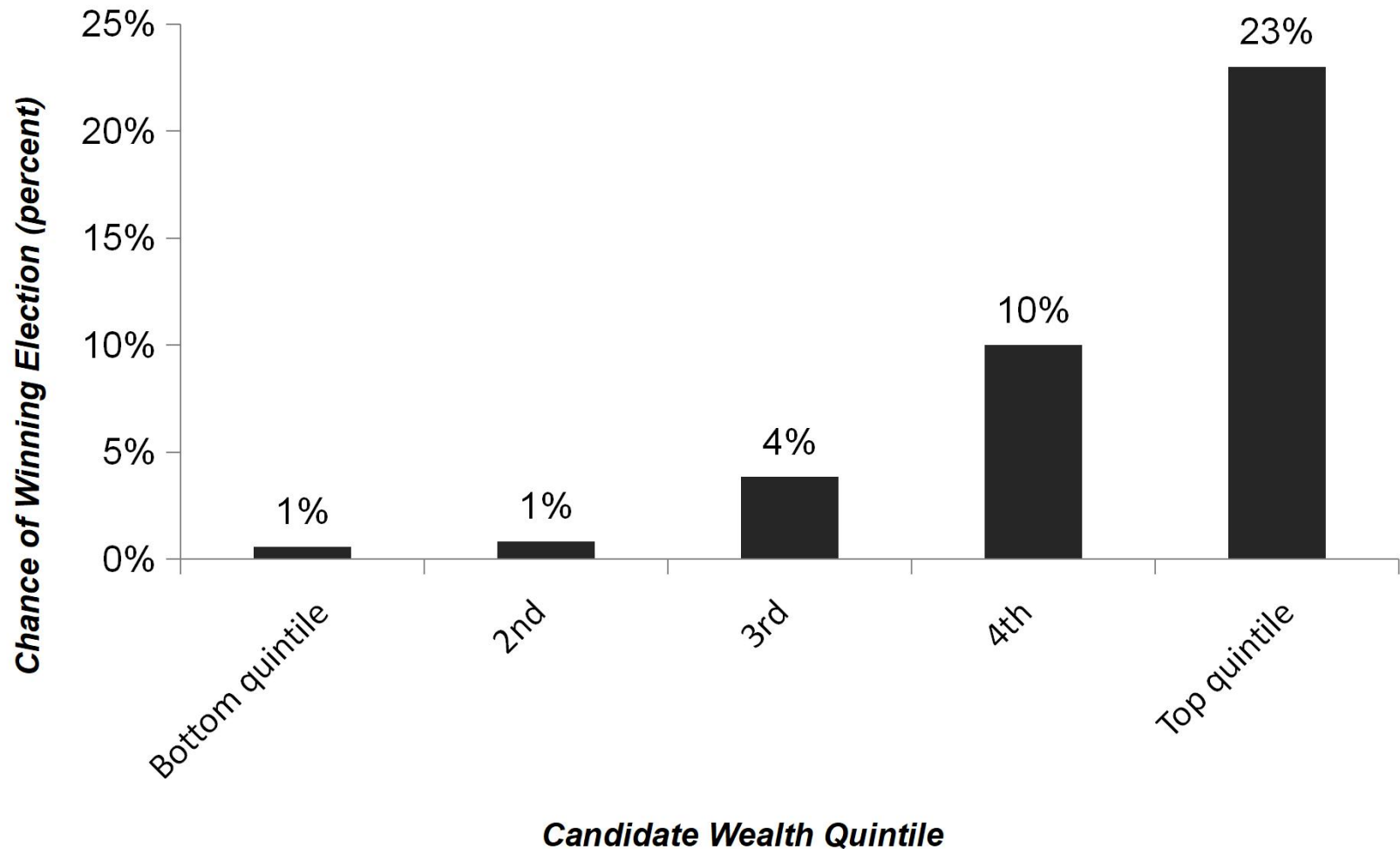


How much do candidates matter?

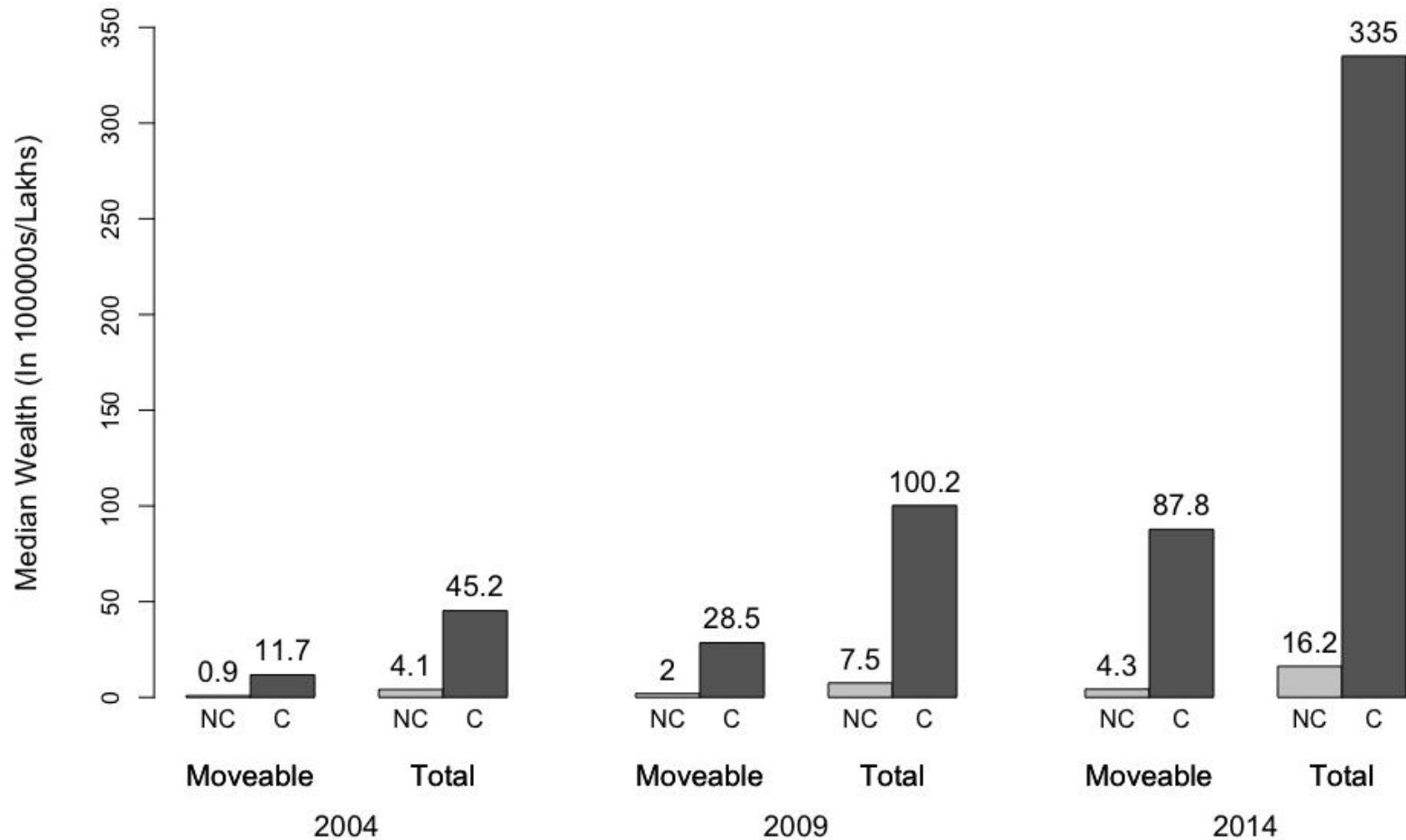
“Crorepati” candidates & MPs



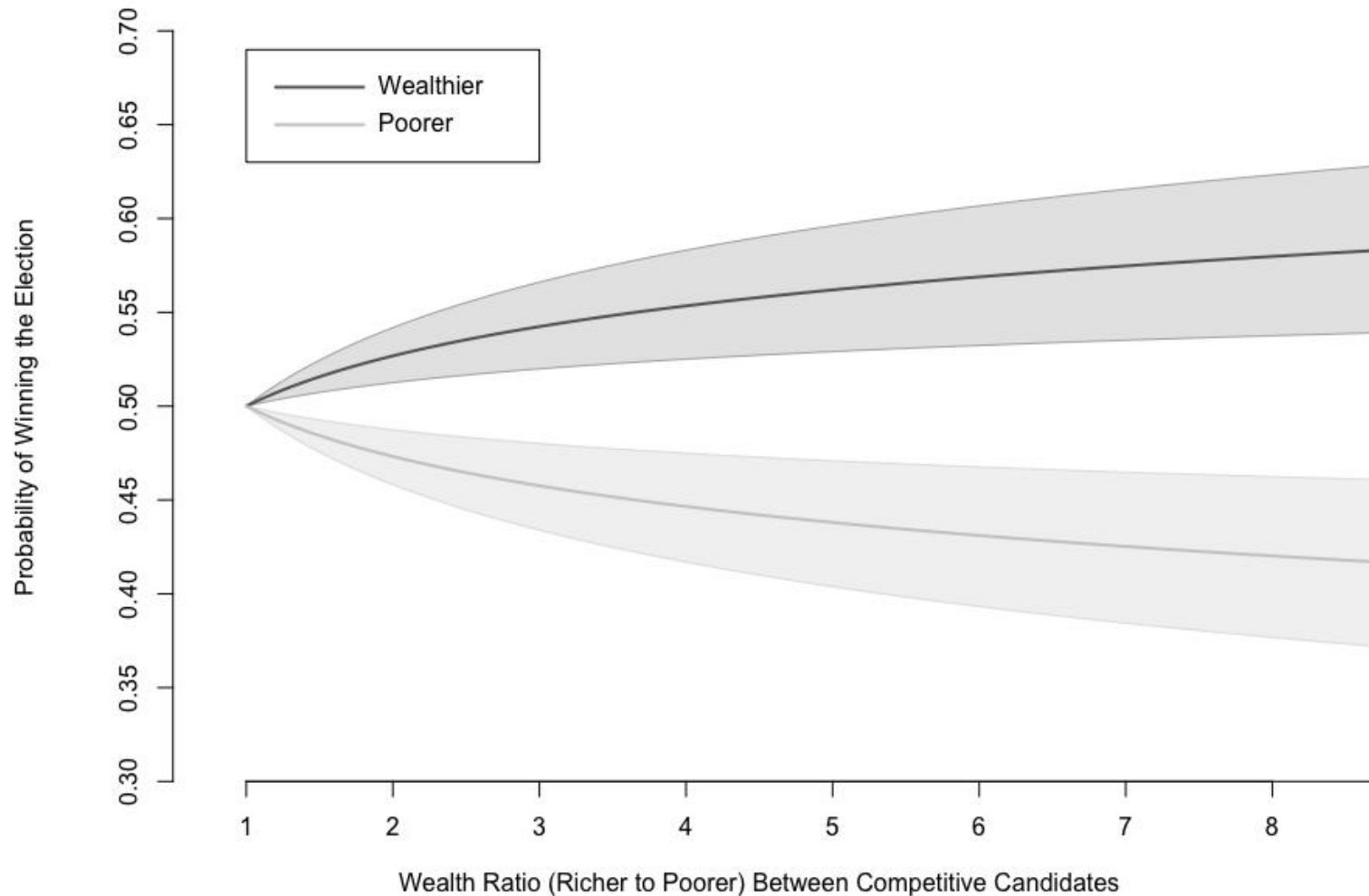
The richest candidates are twenty times more likely to win election than the poorest candidates.



But competitive candidates are wealthier



Wealth predicts outcomes, even among competitive candidates






What do campaigns spend on and why?

What do they spend on?

- Sources may be **illegal**, but much of the spending is on **legal** activities
- ‘Politics as usual’ expenses = important financial priorities for politicians
 - Fees for meeting/rally/procession attendance
 - Salaries for political workers
 - Meals and feasts
 - **Handouts (“vote-buying”)**
 - **Through local intermediary/leader/influencer**
 - **Distributed directly at the individual-level**

Why do candidates distribute handouts?

- Conventional wisdom: traditional vote-buying logic
- In India, weak evidence of *quid pro quo*
 - Weak monitoring capacity, ballot secrecy
- Two possibilities
 - Information on credibility, viability
 - Defensive strategy/Prisoner's Dilemma

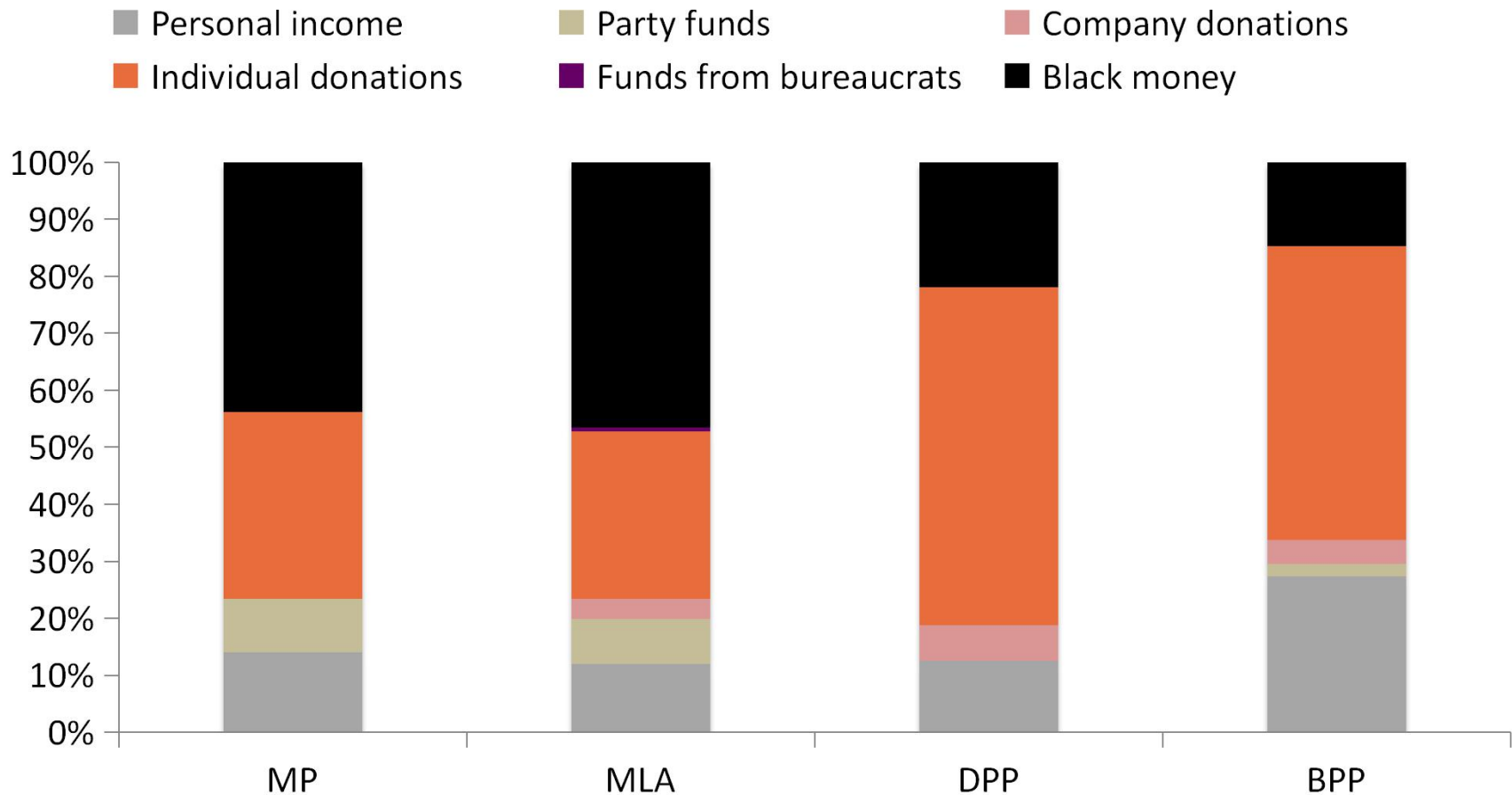


How does money operate at, and
interact with, different levels of
government?

Sources of campaign finance

Position of Politician	National Parliament (MP)	Legislative Assembly (MLA)	District Council President	Block Council President	Village Council President
<i>Political party</i>	69%	64%	6%	2%	2%
<i>Personal resources</i>	88%	88%	97%	96%	89%
<i>Friends & family</i>	78%	76%	64%	47%	28%
<i>Private sector/companies</i>	16%	7%	0%	2%	1%
<i>Bureaucrats</i>	4%	2%	0%	0%	0%

Perceptions of “most common source” of candidate funding



Sources of campaign finance

Position of Politician	National Parliament (MP)	Legislative Assembly (MLA)	District Council President	Block Council President	Village Council President
<i>Percent of peers who benefit from spending of illicit funds</i>	64%	57%	64%	41%	32%
<i>Peers feel pressure to give gifts</i>	92%	83%	86%	71%	51%
<i>Estimated % of voters who receive gifts</i>	34%	26%	40%	31%	25%

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What do we do about it?

Why reform?

- Positive and normative implications of rising barriers to political office
- Opacity facilitates corrupt exchange, erodes internal party democracy
- Potential adverse consequences on public trust
- Profusion of parties and opacity of finance could be causal
 - While black money undermines the electoral process, parties themselves are players in black money ecosystem

What to reform?

- Contributions
 - Full transparency for all contributions
 - Shift to digital payment
- Spending
 - Loosen limits but ratchet up enforcement
- Party accounts
 - Third-party audit and Right to Information Act
- Public funding?
 - Only if paired with better transparency and enforcement

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