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This article is the first cross-national study of firm behaviour in political finance. It infers motivation by relating the strategies of 960 firms to variations in political competition in three countries over periods of between seven and seventeen years. Pragmatic contributions are a reaction to the policy risk created by majoritarian institutions, while ideological payments reflect party system polarisation. In centrist majoritarian Canada, pragmatism dominated business financing of parties. In consensual, traditionally ideological Germany, a small number of ideologically motivated firms choose to express their preference for the right. In Australia, with its intermediate institutional and polarisation positions, both motivations are present. The Australian combination of a substantial contribution rate and ideological bias gives a substantial advantage to the right. In both Australia and Canada, the logic of pragmatism suggests that public policy has been fragmented and distorted.

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If money talks, what does it say? Why do businesses contribute to political parties? Ideology and pragmatism are two important alternatives. They reflect fundamentally different relationships between firms and parties, the key collective actors of capitalism and representative democracy (Schattschneider 1942, 1). Ideological payments are expressive. Pragmatic payments are interested. The pragmatic strategy seeks private goods from the political system. Its effects on public policy should be disorganising and distorting. In the language of American politics, the more important is pragmatic business financing of politics, the more important is “corporate pork”. Pragmatism’s effect on political competition is conservative, in the sense that pragmatic firms will finance those in power and those likely to win power, disadvantaging newer or weaker competitors. Ideological payments promote a public good. They express a preference for government based on a particular set of values and assumptions. Businesses often support a free-market ideology, but can also support other views of government and business, such as corporatism. Ideological payments are aimed at influencing political competition. Ideological payments usually represent a different sort of conservatism to pragmatism bolstering right-wing parties.

Is money a universal language? Do business contributions to political parties convey different messages in different countries? Does the relative importance of ideology and pragmatism vary according to political context, and, if so, why? The most obvious starting point is to value the costs and benefits of alternative strategies of business financing of parties. However, this is a proximate explanation. To be sure, pragmatism is more common when the benefits of making a payment to a party outweigh its costs. A more fundamental explanation needs to account for variation in the ratio of costs to benefits. Two classic variables of comparative politics are promising candidates: the party system and the institutional structure. The more ideologically polarised the principal political parties, the more likely is ideologically-motivated behaviour. The greater is partisan control over public policy, the more likely is pragmatic behaviour. In other words, pragmatism is associated with majoritarianism.

This article is the first cross-national study of firm behaviour in political finance. It infers motivation by relating the strategies of 960 firms to variations in political competition in three countries over periods of between seven and seventeen years. In Australia and Canada, money tends to speak pragmatically, demanding an unlikely but potentially large benefit for a firm in exchange for a certain but small benefit for a party. In Germany, money tends to speak ideologically, granting a certain but small benefit to a party as an expression of a political preference. This variation is associated with party system polarisation and the majoritarianism of institutions.

This paper contributes to the massive literature on the uneasy but vital relationship between capitalism and democracy (Dahl 1998, 179; Frye and Shleifer 1997; Kaufmann et al. 1999; Mills 1959; Olson 2000). The tension between the currencies of the market and democracy, between money and votes, is an inherent one (Lindblom 1977, 189-200; Vogel 1996). The political influence of big business is usually divided into intentional and structural categories (Lindblom 1977, 193-4; Offe 1985, 170-220). A useful way of thinking about intentional business behaviour is to distinguish between different actors (Hillman et al. 2004; Wilson, 1990). The firm can approach politics directly (Coen 1997; Martin 2000; Salisbury 1984; Useem

1984), or through intermediaries such as business associations (Bennett 1999; Greenwood and Jacek 2000; Schmitter and Streeck 1981) or political consultants (Heinz et al. 1993). On the political side, there are huge differences between the bureaucracy, the executive and the legislature. As a further complication, business may make contact with one type of political actor in order to influence a different political actor. For example, parties can influence the legislature and the legislature can influence the executive. Pragmatic firms can pursue their interests with political parties through two principal channels, lobbying and cash contributions. These are often, but far from necessarily, related. There are other methods of relating to parties, such as charitable giving (Hansen and Mitchell 2000) and various types of networking. These seem less important, and, of course, are also often, but not always, combined with lobbying or political finance. This article understands pragmatic business financing of parties as part of the lobbying process. The benefit of financial contributions for business is an increased likelihood of successful lobbying.

While this research is easy to locate within the wider study of business and politics, it does not fit easily into an existing research programme. Many of the above permutations of business and political actors have been intensely studied, but there is a very sparse literature on the relationship between firms and political parties. Beyond Grant's discussions of the "party state" (Grant 1993, 13-18; Grant et al. 1989), only a handful of systematic treatments are to be found (Della Porta 2004; Hopkin 1997). Thus, inspiration has to be somewhat indirect. There is a well-established literature on comparative political finance. However, it tends to tabulate sources of party income and expenditure in broad categories (Nassmacher 2001; Scarrow 2007; Smilov and Toplak 2007; Williams 2000). There is a handful of interesting country studies based on firms (Bond 2007; Fisher 1994; Ramsay et al. 2002; Stanbury 1993, 291-318). Scarrow (2006) draws some interesting comparative conclusions from the absolute and relative size of corporate and individual contributions to parties in Germany and the UK. However, her study does not focus on the firm's motivations as is done here.

The most relevant literature to this article is the voluminous research on business financing of politics in the USA. Like the present research, it exploits firm-level data on payments to politicians. When compared to the potential value of benefits, business spends very little on political contributions (Ansolabehere et al. 2003, 108-9; Tullock 1972). Surely, this reflects the costs politicians incur by taking business money. Politicians must be seen to represent their constituency in order to gain re-election. They cannot afford a perception that their political support can be bought. In a democracy, politicians need to emphasise that the currency of votes trumps that of money. Politicians have to manage their relationship with business supporters in such a way as to minimise this cost. In terms of fundraising, politicians can try to raise money from non-business sources, in particular, ordinary voters. To the extent that business funding in aggregate is important to them, they can reduce their reliance on any individual business, by raising small amounts from a large number of firms.

American business contributions are variously interpreted as more or less legal bribery (Drope and Hansen 2004), purchase of access to politicians (Hall and Wayman 1990), signals to bureaucrats (Gordon and Hafer 2005) and legislators (Hall and Deardorff 2006, 80), mere gifts (Milyo 2002), and as "interested gifts", which generate an obligation to reciprocate (Clawson et

al. 1998; Gordon 2005). This last interpretation is the most convincing. It is consistent with a number of observations that are generally accepted in the American literature: contributions are small (Ansolabehere et al. 2003, 108-109; Sorauf 1992, 187); they are distributed strategically (Ansolabehere et al. 2003, 110; Krozner and Stratmann 2005; Stratmann 2005; 147-148); they are not routinely associated with policy benefits (Ansolabehere et al. 2003, 113-114). Business contributions are a small investment, with an uncertain and relatively low probability of a return at an uncertain point in time. Moreover, the size of the return is also uncertain, but is likely to be very large indeed (Clawson et al. 1998, 68-71; Stigler 1971, 4-6). So, this political investment is a little bit like a venture capital investment.

While the US literature provides a very useful discussion of possible costs and benefits of business financing of politics, it is not framed comparatively. Indeed, the US is a very awkward case from which to attempt to generalise. Its presidential system obviously works very differently to the largely parliamentary regimes of other older democracies. Its elections and political finance are candidate-centred unlike the party-dominated systems of other countries. Finally, and perhaps most importantly, there are major limits on the source, size and purpose of business contributions in the US. The “bizarre and incongruous regulations” (Persily 2006, 219) pertaining to political finance in America mean it is actually very difficult to interpret the reported payments as indicators of the calculations of businesses. Therefore, in the next section I introduce theoretical frameworks to account for variations in ideological and pragmatic behavior at the micro (firm) level and at the macro (national) level.

Ideology and Pragmatism at the Firm Level

The distribution of ideologically motivated donations should be relatively stable over time. Party ideologies change slowly. Even if parties tack to the left or the right for tactical reasons, it is rare for the left-right ranking of parties to change. In contrast, the distribution of pragmatic donations should follow short-term changes in the distribution of political power. These two motivations may interact in a single decision about the distribution of political contributions. For example, take a firm that has an ideological preference for the right. Under a left-wing government it may be prepared to contribute to the left, while also continuing to express its ideological preference by funding the right-wing opposition. More generally, imagine an index of political power that runs from zero, when the right holds all power, to one hundred, when the left has a power monopoly. Also, let there be a measure of ideology: zero for a position at which any funding to the left is unacceptable and one for no ideological preference between left and right. The product of these two is the percentage of a firm’s political contributions donated to the left. So, a firm, which assesses all power to be held by the left, will contribute exclusively to the left if its ideological score is one, i.e. if its motivation is purely pragmatic. It will contribute zero to the left if its motivation is a purely ideological commitment to the right. A firm, the right-wing preference of which is tempered by pragmatism, might split its contributions equally between left and right. Please see Table 1. To summarise, a firm’s distribution of cash to parties is a strategic decision taking into account political power and the firm’s ideological position, if it has one.

[Table 1 about here]

At a point in time, the distribution of a firm's money can be to the left, to the right, a hedge between left and right, and, of course, a firm can decide not to contribute. If we consider two time points, shifts between the four basic distributions give us the sixteen cells in Table 2. If the two time points are divided by a change of government we can identify some of the strategies as clear indicators of ideological (colour-coded white) and pragmatic motivations (colour-coded black). In this example, a left-wing government has replaced a right-wing government. It can be inferred that firms that gave to the left in opposition, as well as in government, are ideologically committed to the left. Similarly, firms that continue to give to the right, even after its ejection from government, are committed to a right-wing ideology. Firms that shift from right to left, as power shifts from right to left, are classified as pragmatic. Those that hedge before and after the election, have no ideological preference, and are pursuing a pragmatic, low-risk strategy. Other strategies suggest an interaction of ideological and pragmatic motivations (colour-coded grey). Those that did not contribute while the right were in power, but contribute to the left when in power, combine an ideological preference for the left with a pragmatic desire not to signal hostility to a right-wing government. Firms that hedge under the right but, under a left-wing government, contribute exclusively to the left, suggest a similar mix of pragmatism towards right-wing governments and a preference for the left. The same logic applies to those that contributed to a right-wing government but abstain from political finance under the left and firms that plumped for the right in government but hedge after a turnover. The other seven cells do not have implications for the underlying motivations of the firms.

[Table 2 about here]

Ideology and Pragmatism at the National Level

Variations in political systems should affect the choice of political strategies by firms. If there is a wide ideological distance between the principal political parties ideological behaviour amongst firms should be more common. Political institutions should also influence the relative frequency of ideological and pragmatic motivations, and, within the pragmatic category, the choice of a specific strategy. Firstly, pragmatism should be more frequent in majoritarian systems because parties have more control over policy. Control of the executive and legislature is usually combined and relatively unconstrained by other institutions. By contrast, in a consensus democracy, individual parties have less control over policy. They usually share control of the executive. Moreover, control of the executive does not imply control of the legislature or vice versa. The power of corporatist interest groups in consensus democracies is particularly relevant to business. Business associations can provide a very strong constraint on the political system's ability to affect business interests and a powerful alternative channel for firms seeking to lobby. In consensus democracies, parties are also constrained by rigid constitutions, courts, central banks and independent regulatory authorities. Secondly, majoritarian systems allow relatively quick and large swings in policy, constituting a political risk for business. Thus, pragmatic firms will seek to insure themselves against this risk, which should be observable in higher contribution rates and more hedging. Thirdly, controlling for overall party control of policy, diffusion of power amongst parties should be associated with increased hedging. This might happen, for example, when a single party government is replaced by a coalition, or a government loses control of either or both houses of a

legislature. The next section introduces the data against which these hypotheses will be tested.

Cases and samples

The criteria according to which country cases have been chosen are the transparency and permissiveness of the political finance regime and the existence of a government turnover. Australia, Canada and Germany have been selected for study. As in the US, all three countries enforced relatively high levels of transparency. In all three countries, political donations by businesses had to be reported. The limit above which disclosure was required varied. In Canada it was only C\$100, in Australia A\$1,500 and in Germany €10,000. The Australian system reports all payments to political parties, whether they are donations or not. In practice, many, and probably most, political contributions are reported as “other payments”. In contrast to the US, there were no limits in any country on the amounts of money businesses could give. Neither were there restrictions on the purposes for which it could be used. The only significant restriction on source was a ban on foreign donations. Thus, reported payments represent a relatively pure indicator of the political calculations of businesses, rather than flows of money that have been warped and constrained by a regulatory system. Since 2001, the UK has had a system with similar transparency and permissiveness. However, there has yet to be a turnover under this regime. Australia, Canada and Germany seem to be the only three cases currently existing, which combine transparency, permissiveness and a turnover, to provide vital intra-case variation in political circumstances.

The three countries differ in the ideological distance between their principal political parties, and, therefore, also vary in the potential for ideological behavior in party-firm relations. The most obvious contrast is between Canada and the other two cases. The two traditional competitors in the Canadian system, and the only two to have formed governments, are the Liberals and Progressive Conservatives (PC). Both were regarded as “brokerage” parties (Carty, 2002, 726) or franchise organizations (Carty, 2002, 730), which assembled relatively diverse electoral coalitions from across Canada. Before the earthquake election of 1993 (Cairns 1994), the two had very similar profiles on economic matters, with the Progressive Conservatives having a somewhat stricter reputation in relation to budgetary management (Bélanger 2003, 544). Prior to 1993, the main competitor of the two main parties was the New Democratic Party, the “social conscience of Canada”. In 1993, the PC’s parliamentary representation was almost eliminated by the emergence of the Reform Party and the Bloc Québécois.

The left-right divide has dominated Australian and German politics (McAllister 2002, 384; Scarrow 2002, 78). In Germany, the centre-right has been occupied by the Christian Democratic Union (CDU), and its rather more conservative Bavarian ally, the Christian Social Union (CSU). They have faced a social democratic party (the SPD), with its roots in socialism and continuing strong links to, including financing from, labor unions. Australia’s centre-right is also defined by a permanent coalition of the Liberal Party and the smaller National Party, which consistently wins rural seats in some areas. (These two parties are often known as “the Coalition”.) They have faced the Australian Labor Party (ALP), again a party with a strong union wing. The German party system is more complex. For much of the post-war period, the pivotal role in coalition government of the liberal Free Democrats (FDP) suggested Germany was a “two-and-a-half” party

system. The 1990s saw the rise of the Alliance 90/the Greens and the Party of Democratic Socialism, heir to the Socialist Unity Party in East Germany. This meant the SPD had serious competition on its left and reduced incentives for the SDP to move to the center (Kitschelt 1999, 329). In recent decades, the ideological histories of the ALP and the SPD have been very different. The ALP entered government in 1983, and became one of the most renowned deregulatory governments in the world, never mind one of the leading deregulatory left-of-centre governments (McMullin 1991, 418-432, 442-43). The SPD languished in opposition from 1982 to 1998. They returned to power in 1998, in coalition with the Greens, having campaigned on a “New Middle” platform. Thus, the German SPD’s decisive move to the centre came later, was less dramatic, and seemed more politically constrained than that of the ALP (Padgett 2003, 42). The party system can be ranked in the following order of potential for ideological party-firm relations: Germany, Australia, Canada.

Germany is the most consensual and Canada the most majoritarian, on both the executive-parties and federal-unitary dimensions of Lijphart’s two-dimensional map of democracy (1999, 248, 312). On both dimensions, Germany is further from Australia than Australia is from Canada. Germany’s membership of the European Union is an important additional constraint, which removes many matters of concern to business from the bailiwick of German political parties. There was little intra-case variation in the diffusion of power amongst parties in Germany and Canada. There were no minority governments. All German governments were coalitions between a large and a small party, while all Canadian governments were single party. The Canadian Senate is a weak revisionary chamber (Luzstig 1995; Simeon 2004, 100). The German Bundesrat, the upper house of the national parliament, is composed of representatives of the Land (state) governments. It has an absolute veto over legislation in areas of Land competence. Its veto in other areas can be overridden by a majority in the lower house greater than the majority in favour of a veto in the Bundesrat. It was never controlled by the government during this period. The Australian sample affords some opportunities to test institutional hypotheses. All of the Australian jurisdictions, other than unicameral Queensland, have upper houses, with which governments often have to bargain over legislation. John Wanna writes, “More than any other Australian jurisdiction, incumbency in Queensland is characterized by majoritarianism and a ‘winner takes all’ philosophy” (2003, 96). Tasmania is an outlier in the opposite direction. Its lower house works very consensually due to the importance of local interests that often trump partisan loyalties (Herr 2002, 584; Kellow 2003, 145). In the period under analysis, except for one year of government control of the Commonwealth Senate, minor parties and independents held the balance of power in the second chambers. Since Australian federalism is, in general, highly symmetrical, and party systems essentially the same, these variations in legislative institutions avoid the omitted variable bias that often plagues attempts to test institutional arguments.

In all three countries, samples have been drawn from published lists of large firms. Practical considerations resulted in differences in the length of the lists and periods used to define the three samples. Nonetheless, the country samples represent essentially comparable groups of consistently very large firms, with less than fifty per cent state ownership. The research design avoids the potential sample selection bias (Kim 2008; Munger 1988) that is sometimes evident in the study of the distribution of contributions

(Burris 2001; Fisher 1994). The Australian dataset exploits the essentially uniform political finance regulations and party systems at the federal level and in the six states, while the Canadian and German studies are restricted to the federal level. There is at least one clear turnover in each sample. Please see Table 3 for basic information about the samples. The next section analyses the data at the country level.

[Table 3 about here]

Firm Data Analysis

The dependent variable is calculated from the official reports for each country. The Australian figures incorporate payments to “associated entities”, as well as direct payments to parties. “Donations” as well as “other payments” are included. An average of 51 per cent of Canadian firms contributed each year, 32 per cent in at least one of the seven Australian jurisdictions and only 4.3 per cent in Germany. To begin the study of firm strategy, a measure of *Bias* has been calculated, defined as payments to the major left of centre party as a proportion of payments to the two main parties (or electoral coalitions). So, for Australia, this is a firm’s payments to the Australian Labor Party over the firm’s payments to the Australian Labor Party, the Liberal Party and its permanent ally, the National Party. Bias in Canada is payments to the Liberals over payments to the Liberals and the Progressive Conservatives. In Germany, it is contributions to the Social Democratic Party over donations to the social democrats and the Christian Democratic Union and its permanent ally, the Christian Social Union. As Figures 1 to 3 show, the distribution of payments across the three samples is very different. In Australia, firms plump for both the left and right, with a much smaller proportion opting to hedge. However, in Canada, almost as many hedge, as opt for either the Liberals or the Progressive Conservatives. Finally, in Germany, the vast majority of firms paid exclusively to the CDU-CSU, with only a handful choosing the SPD. Firms clearly cluster around the strategies introduced in the theoretical framework: non-contribution, a clear preference for one party or hedging. More subtle distributions are very rare. Thus, the dependent variable for multivariate analysis consists of four categories: no contribution; *Left* (bias ≥ 0.67); *Hedge* (bias between 0.34 and 0.66) and *Right* (bias ≤ 0.33).

[Figures 1 to 3 about here]

The following variables are used to explain variation in the firms’ contribution strategies. First, there is a dummy variable for *Left Government*. Next is *Years to Election*, which counts the number of years until the next constitutionally mandated election. The first economic variable is *Income* (logged to reduce the impact of outliers). Large firms are more likely to hedge because of the lower costs of payments relative to their income. The German firms had larger incomes than their counterparts in Canada and Australia. If the German threshold is calculated as a proportion of the mean income in the sample, it is barely higher than the Australian and Canadian thresholds. Given that pragmatic firms should undertake a cost-benefit analysis of contributions, this seems like a reasonable approach to assessing differences in thresholds. Finally, the firms have been classified into seven sectors, based on amalgamations of the UN ISIC classification. This was necessary because of collinearity problems in more disaggregated versions. Different sectors have different exposure to politics (Stigler 1971) and different incentives to finance political parties.

Table 4 presents multinomial logits with random parameters (Greene 2007, E23-19-24). The Australian and Canadian models conform to the framework introduced above. For the German sample, it was necessary to collapse the hedge and left-wing categories. The separate equations predict the logged odds of each of the contribution categories by reference to non-contribution. The sectoral dummies are not shown. They are mostly significant in the Australian and Canadian cases but only sporadically so for Germany. Income is statistically significant in all equations, and, in line with theory, the coefficients are bigger for the hedging category than for those firms that opt for left or right. It is also unsurprising that the number of years to the election is always negative and is also statistically significant. [Table 4 about here]

Left Government is important in all three cases, demonstrating a substantial amount of pragmatism in the three countries. However, the role it plays varies. Left-wing government cannot explain the relatively small amount of hedging observed in Australia. In Canada, firms are less likely to hedge under a Liberal government and the coefficient is comparable in size to the other coefficients for left-wing government. Left-wing government is negatively and significantly associated with contributions to the right in both Canada and Australia. The Canadian coefficient is more than twice as large as its Australian counterpart. The German coefficient is small and statistically insignificant. This can be construed as evidence of the weakness of pragmatic motivations for contributing to the German right. The absence of an incumbency effect on right-wing contributions suggests that many German businesses contribute in order to express their support for right-wing policies rather than hoping for benefits targeted at their own firm. Finally, left-wing government is associated with contributions to the left in each country (to the left or hedging in Germany). In Australia, this effect seems to be very small and is significant at a low level for such a large sample. The Canadian and German coefficients are both approximately seven times larger.¹

The variations in the effect of Left Government across the strategies within countries suggest that pragmatism interacts with ideology. These interactions can be understood in the two-period framework introduced earlier. Australian businesses tend to react to left-wing government, not so much by contributing to the left, or even hedging between the Coalition and the ALP, but by refraining from contributing to the right. In contrast, changes in government drive Canadian firms' contributions to both the left and the right. However, hedging is also frequent in Canada, and is especially favoured when the right are in power. Finally, in Germany, most contributions are to the right and are not significantly affected by changes in

¹ These conclusions were subjected to a number of robustness tests. Multinomial logits with robust standard errors clustered by firm were run. This made no difference to the results. Also, two models were run to test for robustness to some characteristics of the Australian sample. Excluding the federal level did not change the conclusions. The Australian data undoubtedly contains some payments, which are part of the day-to-day running of the party, rather than political contributions. A business relationship is more likely in the business services, finance and insurance sectors. Excluding the 22 per cent of firms in these categories also made no significant difference.

power. However, the relatively small number of hedging and left-wing contributions is strongly associated with Left Government.

While multinomial logits offer a rigorous analysis of rich data they are difficult to directly summarise. However, it is possible to do so by manipulating the predictions implied by the models. Please see Table 5. If ideology is not important the parties should be treated identically in identical positions of political power. The models predict that, in Australia, the probability of a manufacturing firm with an average income contributing to a right-wing government is twice that of a left-wing government. In Canada, there is a small bias towards the Liberals. The probability of a contribution to a right-wing German government is over seven times larger than the probability of a contribution to its left-wing counterpart. Indeed, the conflation of hedging and leftist contributions in Germany means the ideological bias is even larger than this figure. Changes of government are predicted to produce a seventeen per cent increase in the probability of a contribution to the newly governing party in Australia, versus a whopping forty per cent in Canada. The German figure of fifteen per cent may be underestimated due to the combination of hedging and contributions to the left.

[Table 5 about here]

In order to further explore firm strategies in relation to incumbency, case studies of firm strategies before and after the turnovers of 1993 in Canada, 1998 in Germany and 2002 in South Australia were conducted. This exercise is not subject to formal statistical tests but it is undertaken with the backing of the previous significant results for Left Government. The case studies provide some provide a further illustration of the variation in the importance of ideology and pragmatism across the three countries. Figure 4, is based on classifications of every firm that contributed to the political parties in the parliament before and/or after the turnover. The bars represent the proportions of classified contributions pursuing any of the strategies classified as ideological, pragmatic or an interaction of ideological and pragmatic motivations. The combination of ideological and pragmatic motivations is by far the largest category in South Australia and Germany and joint largest in Canada. The German turnover exhibits the most ideological behaviour and the Canadian the most pragmatic, with South Australia in between. On their own, the case studies provide intriguing evidence. Combined with the descriptive statistics and the multinomial logit estimates they allow a reasonable degree of certainty in asserting that pragmatic considerations are important across the three countries, but this pragmatism competes and interacts with ideology in different ways in each country.

The costs and benefits of business financing are difficult to observe directly and systematically. Nonetheless, as Figure 5 shows, the mean Australian or Canadian payment represented a much larger proportion of the firm's income than in Germany. This suggests that Australian and Canadian firms perceived a greater potential benefit from their payments. By contrast, as seen in Figure 6, the mean German payment represented a much larger proportion of party income than the mean Canadian payment. This makes sense if we accept that German payments were largely ideological and consider the costs to parties of accepting payments. Australian and Canadian parties had much greater incentives to discourage larger payments that would draw further attention to the interested nature of

business financing of politics. However, due to the rarity of payments, in aggregate, business was not an important source of finance for German parties, even on the right. There is no indication that business financing was systematically or substantially linked to benefits for German businesses. By contrast, in Canada and Australia, decades of journalistic investigations consistently report a relatively institutionalised system linking political contributions with limited benefits for businesses. In both countries, the dominant interpretations were that money was straightforwardly traded for access (Chamberlin 1995; Mitchell 2006; Mittelstaedt 1993; Naumetz 1986) and/or helped build relationships (Allen 1989; Curtis 1999; Day 1995; Millar 2008), which might improve the chances of successful lobbying at some point in the future. The similarity between the two countries is more remarkable than any differences. Very similar mechanisms and language were employed in the same countries. Nonetheless, the more or less blatant sale of access may have been more frequent in Australia than in Canada. The available quantitative and qualitative data on the costs and benefits of business financing in the three countries is consistent with the previous analysis of firm strategy, which ranks Canada as the most pragmatic, Germany the most ideological and Australian in the middle. The next section tests party system and institutional explanations of this variation. [Figures 5 and 6 about here]

Cross-national Analysis

Pragmatism and ideology in party-firm relations are associated with party system polarisation. Non-ideological Canada is the most pragmatic and relatively polarised Germany is the most ideological, with Australia, as usual, in the middle. Australia provides the opportunity to study some intra-case variation. The Australian Labor Party's dash towards the market in the 1980s and 1980s represented a major change in the ideological environment of Australian politics. The ALP introduced a disclosure law in 1984 and substantially strengthened it in 1992 (Chaples 1994, 31). However, this era did not represent a withdrawal of business from financing parties, but rather a shift from ideological to pragmatic motivations. The ALP used disclosures to target traditional Liberal donors (Gordon and Ceresa 1995). The ALP's new attitude to business reached its most extreme in Western Australia, which was rocked by spectacular scandals in the late 1980s (Cohen 2007; Wainwright 1992). In other jurisdictions, the ALP began to build a system to encourage pragmatic donations by offering a range of access and relationship-building events and memberships. The Liberals could no longer take business support for granted and had to respond in kind by also facilitating pragmatic contributions.

Majoritarianism is positively associated with pragmatism across the three country cases. Majoritarian Canada is the most pragmatic, followed by Australia, with consensual Germany dominated by ideological contributions. Unfortunately, of course, majoritarianism is collinear with party system polarisation across the three states. Variation within Australia controls for the party system. Queensland's majoritarianism seems to be associated with greater pragmatism amongst contributing businesses. It is the only state where ALP dominance of government and public popularity has been reflected in ALP dominance of business contributions. The marginality of Coalition donors in Queensland is remarkable in comparison to the bias

towards the Coalition under popular multi-term ALP governments in Victoria, New South Wales, and Western Australia.

Hedging is positively associated with majoritarianism in the three datasets, but, again, there is collinearity with polarisation. Intra-Australian evidence contradicts this hypothesis. Hedging is most frequent in consensual Tasmania, which admittedly has a very low contribution rate. Moreover, majoritarian Queensland has the lowest level of hedging. The contribution rate is highest in majoritarian Canada and lowest in consensual Germany. The significance of this pattern is reduced by collinearity with polarisation. Evidence from the Australian states does not support this hypothesis. Variations in contribution rate are very clearly associated with GDP, and not with majoritarian institutions. The last hypothesis is: the more equal the distribution of power amongst parties the more frequent is hedging. The cross-national pattern contradicts this pattern, but does not control for the overall power of parties in the political system. This is the logic of hypothesis two, which says that businesses should insure themselves against the risk of powerful parties changing policy by hedging. This problem is avoided by testing amongst the Australian states, which have identical constitutional powers. The pattern supports the hypothesis. Hedging is most frequent in Tasmania, where parties have to co-operate in the legislature and least frequent in Queensland, where the government can ignore the opposition. A final test is provided by the Coalition's gaining of a majority in the Commonwealth Senate in late 2004 (McAllister 2005). This should have led to a reduction in hedging, but the opposite happened. Table 6 summarises the institutional tests.

[Table 6 about here]

Overall, the party system explanation fits the predicted pattern in the two hypotheses that were tested. However, controlling for political institutions, it only passes the intra-Australian test. One, or maybe one and a half, of the three institutional hypotheses were supported by the evidence. Collinearity does not really affect this outcome. The institutional explanation was subjected to a nine separate tests, compared to two for the party system. Nonetheless, the party system hypothesis met no actual disconfirming evidence. While the party system hypothesis has perhaps been slightly more successful, it is difficult to choose between the two explanations. A clearer result would have been theoretically informative, and might provide some clues for would-be reformers of political finance regimes. However, such a result is not necessary to make cross-national predictions because the collinearity between institutions and ideological polarisation is not a particular feature of this article's sample. The two are widely accepted to be associated with each other. The evidence presented here suggests that, in consensual countries with relatively polarised political competition, firms are likely to make ideological contributions to parties, and, in majoritarian countries with centrist competitors, firms are likely to be pragmatically motivated in financing parties.

Conclusions

Business money does talk politics. In pragmatic Australian and Canada, it says, softly and subtly, but insistently, that, in exchange for small but certain financial benefits, that contributing businesses expect to receive special consideration of their lobbying efforts. This expectation was relatively

firmly embedded in a long-established and well-known, if far from predictable, system of party-firm relations. Special consideration was delivered through personal and organisational relationships that would not have existed, or would have been of inferior quality, had financial contributions not been made. In Germany, there was no such systematic integration of political finance and party-firm relations. Payments tended to express the traditional ideological preference of German business for right-wing parties, and their suspicion of the social democrats. This variation reflects fundamental differences in political competition across the three countries. In Germany, the principal competitors are the heirs to class struggle and have to deal with ongoing tensions about the distribution of wealth in society. A small number of German businesses still express their preference for the market by donating consistently to the right. Germany's political system struggles to deliver change without a very wide consensus across parties, states, and, indeed, Europe. Therefore, firms are exposed to minimal policy risk and have little incentive to make pragmatic payments to parties. In Canada, the two centrist parties shared a fundamentally pro-business position, thus there was virtually no ideological choice to be made. However, Canada's powerful executive can make substantial policy changes, without taking other institutions into account. A majority of large Canadian firms tried to insure themselves against policy risk by rewarding governments from both parties and hedging against changes of government. Australia exhibits a mix of pragmatism and ideology. Historically, the Liberals were the party of business and the market, while the Australian Labor Party kept its distance from business, while maintaining a good relationship with labor unions. There is still a bias towards the right in the business financing of political parties, but this seems to have diminished due to the ALP's conversion to the market in the 1980s. Like Canada, the Australian jurisdictions exhibit many characteristics of classic Westminster majoritarianism. In this institutional context, it is rational for many firms to make payments to parties seeking access and opportunities to develop relationships, which may deliver massive benefits in the future. Across Australian jurisdictions, there is evidence that firms adjust their strategies according to the institutional configuration of the political system.

These differences are likely to have had major consequences. Germany's low contribution rate means that it is unlikely that businesses have influenced the outcome of party political competition. For different reasons, the same is probably true for Canada. The logic of pragmatism is to reflect, rather than to try to modify, existing distributions of political support. The Australian combination of ideologically-motivated contributions and a relatively high contribution rate means that businesses systematically bias Australian politics towards the right. Pragmatism should have important effects on public policy. While there is no suggestion that, except in very rare cases, policy was bought in Australia and Canada, there is a consensus that business payments to parties were interested. An opportunity to make a pitch, or a hearing that was slightly more sympathetic, must have frequently meant a different decision was made. In total, these decisions should have skewed the system towards private goods and away from public goods. A large number of countries now meet the requirements of transparency and permissiveness that allow for useful statistical studies of business contributions to parties. As internal variation develops over time, these countries will be available for analysis in the style of this paper. Therefore, this paper's arguments have the potential for wider comparative testing.

TABLE 1 Interaction of Ideology and Pragmatism

Percentage of power held by the left	Ideology	Percentage of contribution to the left
100	0	0
100	1	100
100	0.5	50

Note: Contribution to the left is the product of power and ideology.

TABLE 2 Classification of Turnover Strategies

Right in power	Left in power			
	Non-contributor	Hedge	Left	Right
Non-contributor			Interaction	
Hedge		Pragmatism	Interaction	
Left			Ideology	
Right	Interaction	Interaction	Pragmatism	Ideology

TABLE 3 Characteristics of Samples

	Firms	Years	Jurisdictions	Observations	Elections	Turnovers
Australia	450	7 (1999-2005)	7	22050	14	1
Canada	195	17 (1984-2000)	1	3315	4	2
Germany	315	14 (1992-2005)	1	4410	3	1

Notes: Firms with over 50% direct state ownership have been excluded. The Australian sample is defined by membership of the *Business Review Weekly* Top 1000 in both 1999 and 2005. The starting date is set by the availability of electronic records, while the end date is set by a major regulatory change, which moved the threshold for reporting from A\$1,500 to \$10,000 per annum. The Canadian sample is defined by membership of the *Globe and Mail Report on Business* Top 1000 in both 1983 and 1998 (Accessible via <http://www.lib.uwo.ca>). The Canadian start date is due to the time-consuming nature of data entry. The end date marks a break in the continuity of records. The German sample is defined by membership of *Die Welt* Top 500 in both 1997 and 2002. (See <http://top500.welt.de>) 1992 is the beginning of the German sample because of a large reduction in the threshold for reporting introduced in that year and 1997 is the earliest year for which the *Die Welt* list is available. 2005 is the last year for which data is available. The formation of a grand coalition in Germany in 2005 is not counted as turnover.

TABLE 4 Multinomial Logit Estimates of Firm Strategy

	Australia	Canada	Germany
Strategy	Hedge	Hedge	-
Left Government	.18018 (.15236)	-.82232 (.11094)***	
Years to Election	-.43215 (.04458)***	-.44498 (.05195)***	
Income (logged)	1.1461 (.04164)***	1.15182 (.04809)***	
Constant	-14.9506 (.494)***	-16.8783 (.73016)***	
Strategy	Right	Right	Right
Left Government	-.52158 (.07788)***	-1.16194 (.10745)***	-.24805 (.20077)
Years to Election	-.11323 (.03836)***	-.34063 (.04604)***	-.19796 (.10388139)*
Income (logged)	.88661 (.03006)***	.5055 (.035)***	1.2003 (.14268)***
Constant	-10.4053 (.274)***	-5.4618 (.4978)***	-8.4882 (.55102)***
Strategy	Left	Left	Hedge/Left
Left Government	.13695 (.07956)*	.88933 (.08765)***	.88035 (.41522)**
Years to Election	-.19835 (.0438)***	-.08595 (.04563)*	-.3559 (.1865)*
Income (logged)	.98691 (.03339)***	.72671 (.03866)***	1.5441 (.26373)***
Constant	-12.077 (.32728)***	-11.6567 (.555)***	-12.994 (1.60775)***
Sectoral controls	Yes	Yes	Yes
Log likelihood	-7314.349	-2999.045	-591.7491
Observations	22050	3315	4410

Notes: Standard errors in parentheses. *** = significant at 1%; ** = significant at 5% * = significant at 10%. Australian incomes interpolated for 2000, 2001, 2003, 2004. Canadian income figures imputed from data for 1983, 1987, 1994 and 1998 using Amelia II (King et al. 2001). . German incomes imputed from data for 1997, 1998, 1999, 2002, 2005, excluding banks and insurers for which no income figures were available.

TABLE 5 Summary of Models' Implications

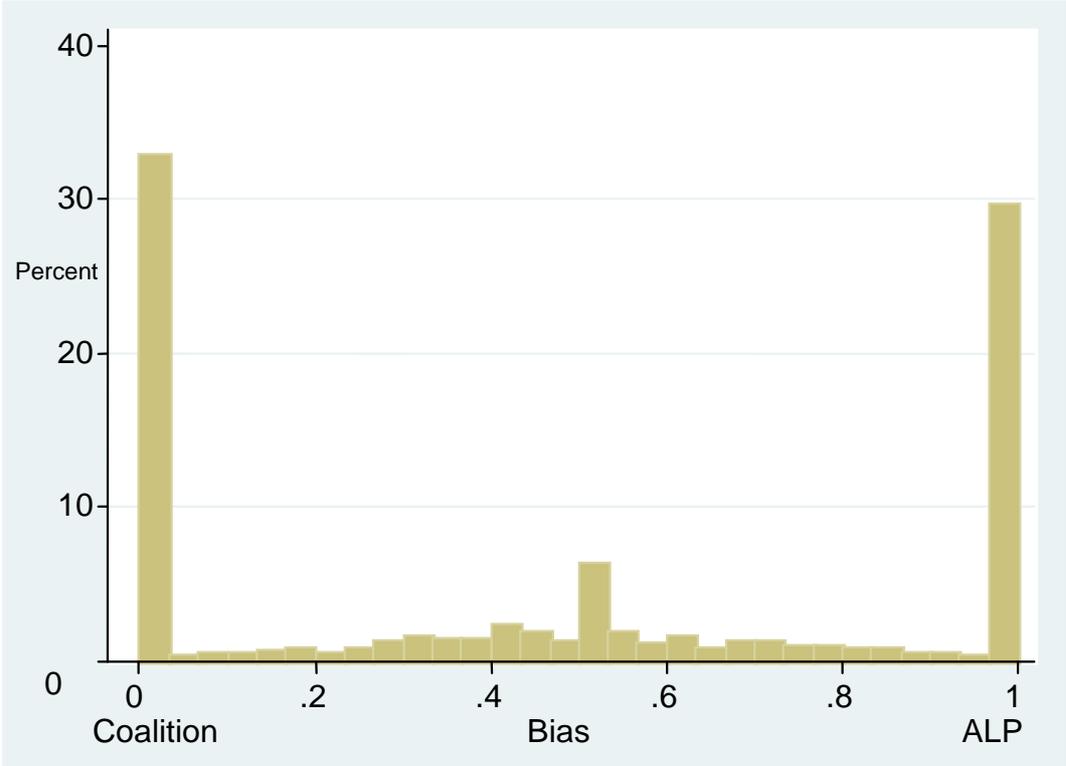
	Australia	Canada	Germany
Ideology measure	2.08 (to the right)	1.25 (to the left)	7.34 (to the right)
Incumbency measure	17.06	40.5	15.06

Notes: The figures in this table are based on predictions from the equations in Table 4 for a manufacturing firm (the modal sector in all three countries), with a mean income and the mean number of years to an election. The ideology figure compares the probability of a contribution to a right-wing government to that for a left-wing government. If the right-wing probability is larger the statistic is the right divided by the left. If the left-wing probability is larger the statistic is the left divided by the right. The incumbency measure compares probabilities of contribution to the right and the left in opposition and in government. The score is the mean of the government minus the opposition probabilities for the two parties as a percentage of the mean total probability of contributions to either party when either is in government.

TABLE 6 Institutional Tests

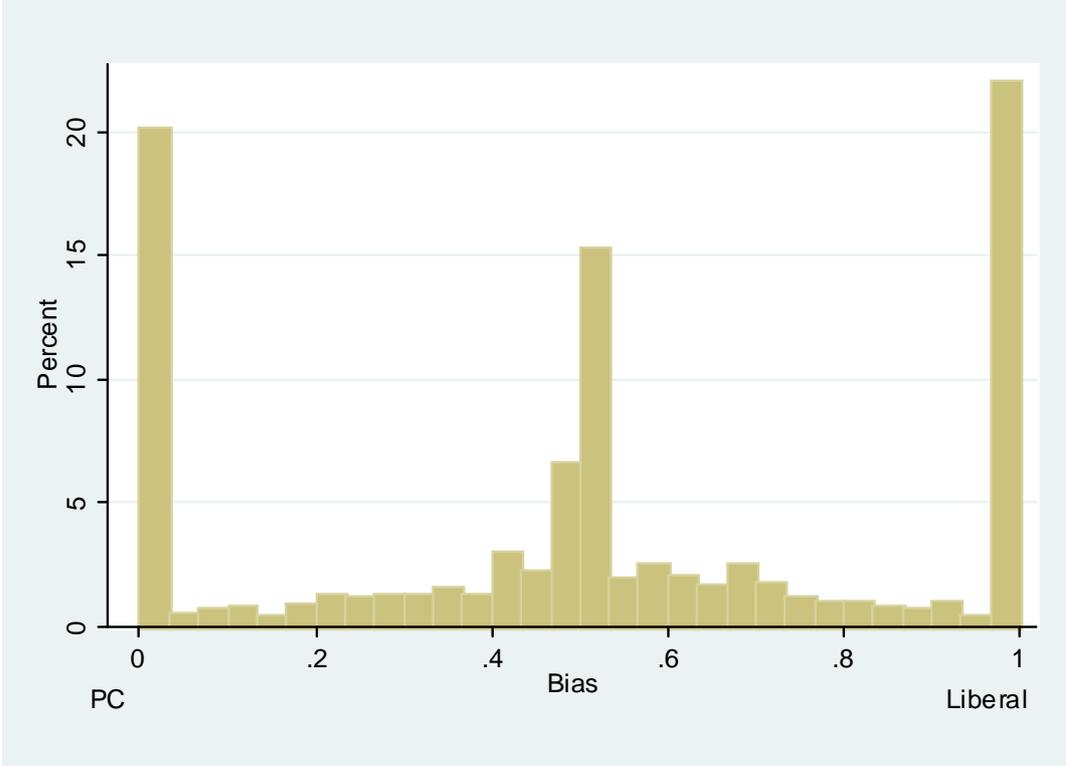
H	Prediction	Finding	Interpretation
1	Majoritarianism is positively associated with pragmatism.	Canada, Australia, Germany Queensland, others, Tasmania	Evidence tends to support hypothesis Null (collinear with party system) Evidence tends to support hypothesis
2	Majoritarianism increases the risk of policy change.		Evidence tends to reject hypothesis
2A	Majoritarianism increases the contribution rate.	Canada, Australia, Germany Queensland, others, Tasmania	Canada, Australia, Germany Contribution rates are explained by size of economy. Evidence tends to reject hypothesis
2B	Majoritarianism is positively associated with hedging.	Canada, Australia, Germany Queensland, others, Tasmania	Canada, Australia, Germany Tasmania, others, Queensland Evidence tends to reject hypothesis
3	A more equal the distribution of power amongst parties increases hedging.		Null
		Germany, Australia, Canada Tasmania, others, Queensland Commonwealth 2005 versus pre-2005	Canada, Australia, Germany Tasmania, others, Queensland Evidence tends to support hypothesis Evidence tends to reject hypothesis

FIGURE 1 Distribution of Bias - Australia



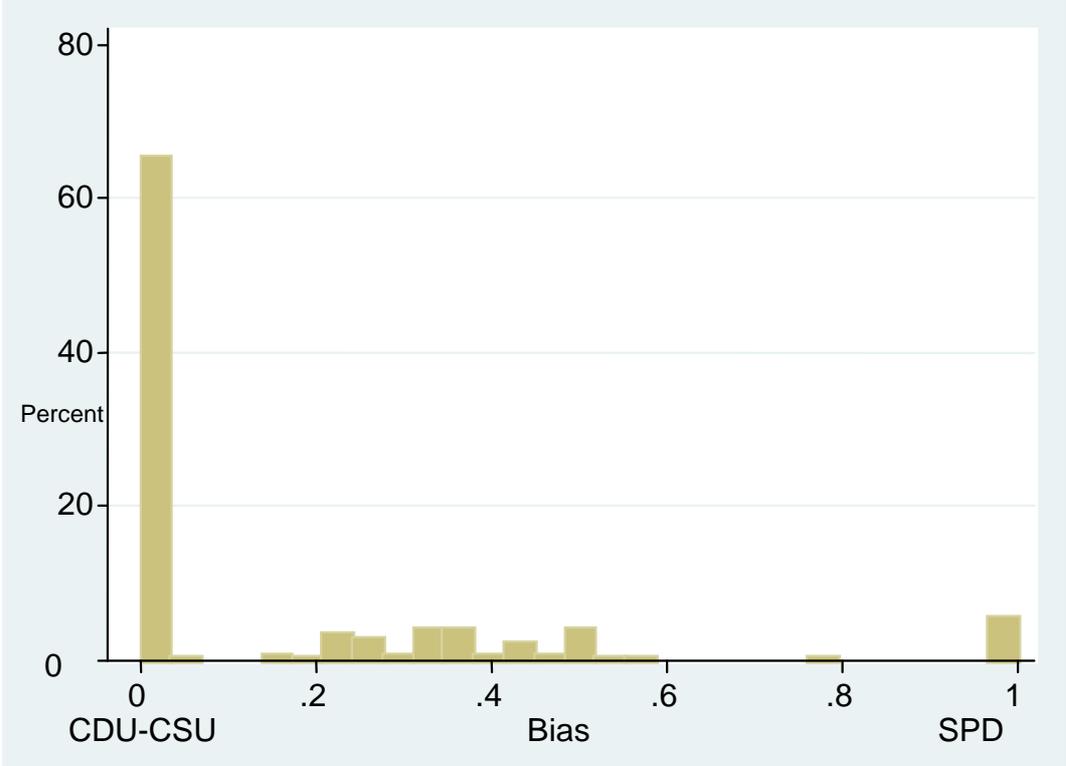
Note: Obs=2162; 239 firms. Bias is proportion of reported contributions to the Liberal-National coalition and the Australian Labor Party paid to Labor in a given jurisdiction in a given year.

FIGURE 2 Distribution of Bias - Canada



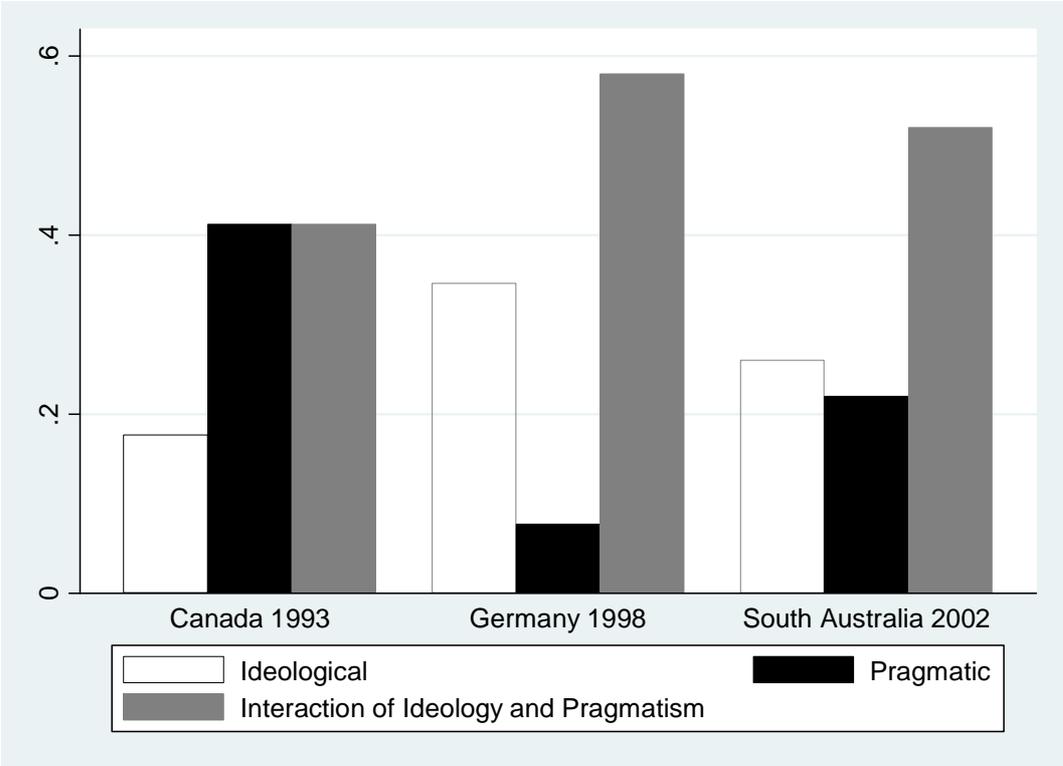
Note: Obs=1696; 167 firms. Bias is proportion of reported contributions to the Progressive Conservatives and Liberals paid to the Liberals in a given year.

FIGURE 3 Distribution of Bias - Germany



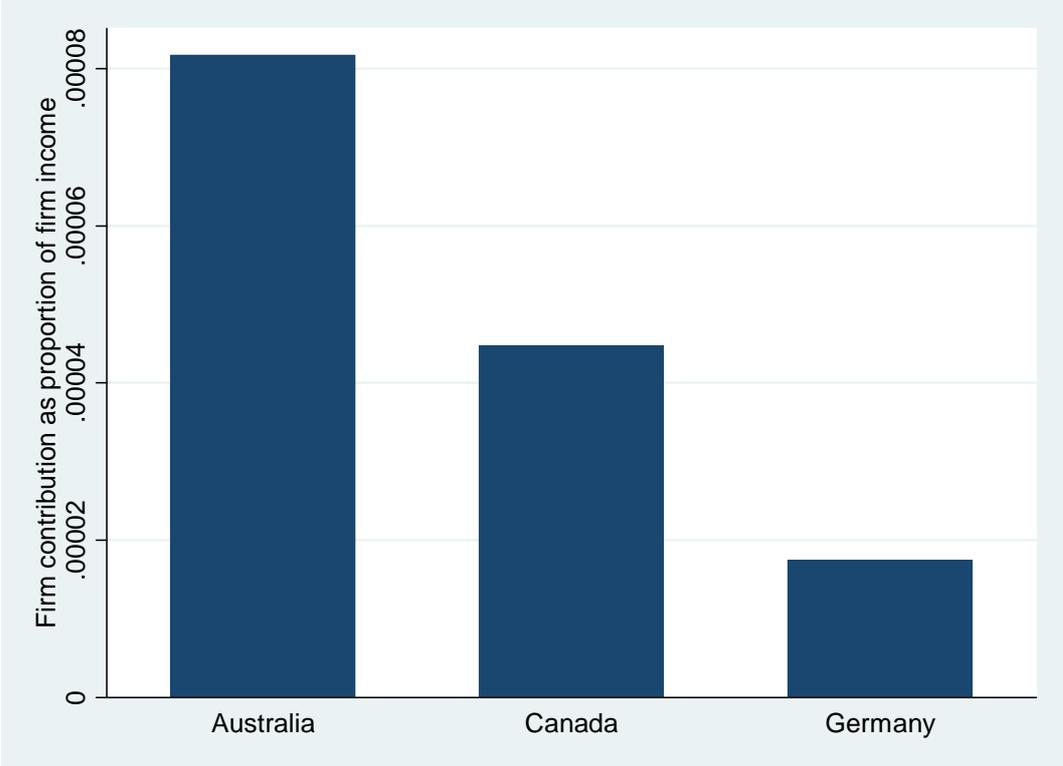
Note: Obs=191; 59 firms. Bias is proportion of reported contributions to the Social Democrats and Christian Democratic Union – Christian Social Union paid to the Social Democrats in a given year.

FIGURE 4 Comparison of turnover strategies



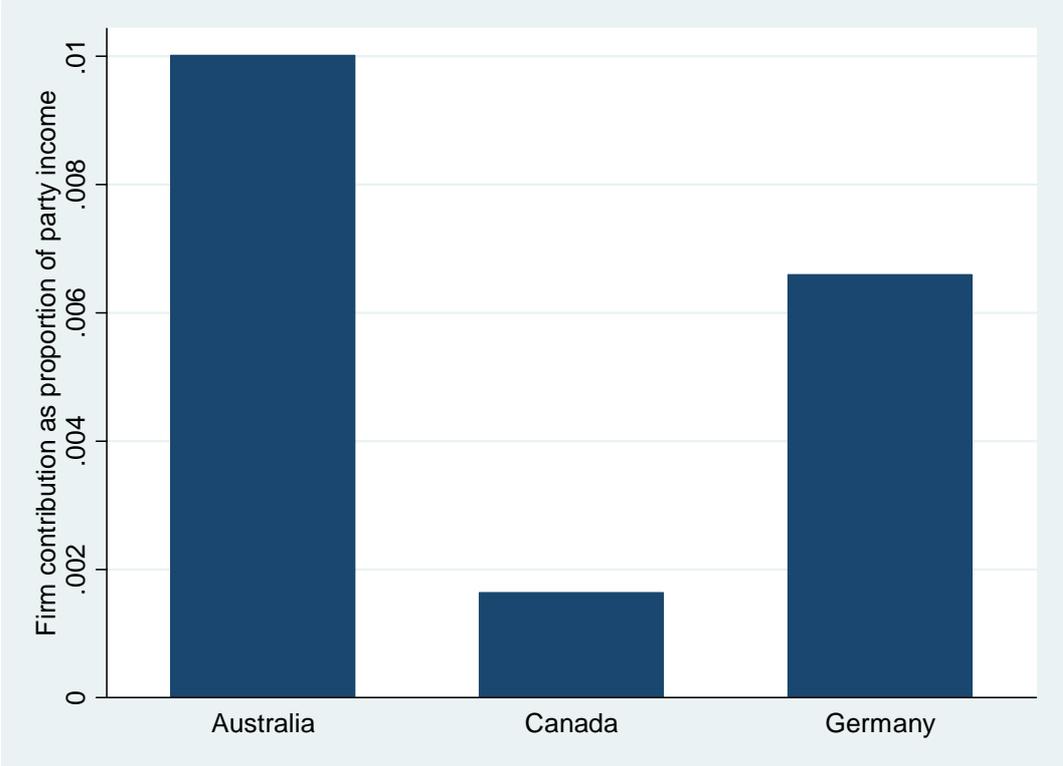
Notes: The figures represent the proportion of classified contributors in the three categories. The classifications are derived from contributions in the parliaments before and after the turnover elections. Canada: N=169 firms. There were 9.5 times as many contributors inside categories as outside them. Germany: N=42 firms. There were 2.5 times as many contributors inside the colour-coded categories as outside them. The South Australian election was in February and the accounting year for the Australian Electoral Commission begins in July. The figures are the mean of three different measurement strategies: (1) Leaving out 2002, counting 2002 as a year of Liberal government and counting 2002 as a year of Labor government. The mean number of contributors was 52. There were 3.3 times as many contributors inside the categories as outside them.

FIGURE 5 Value of payments to firm



Note: Australian measures based on explicitly identified donations, or excluding those sectors most likely to trade with parties, reduce the Australian score to lower than the Canadian figure, but still higher than Germany. Eliminating Australian and Canadian payments to below the German threshold (using the exchange rate) maintains the same clear ranking of countries.

FIGURE 6 Value of payments to party



Note: Changing the Australian measure to include only explicitly identified donations reduces the Australian score to slightly below Germany. Excluding those sectors most likely to trade with parties reduces the Australian score to slightly below Canada. Eliminating Australian and Canadian payments to below the German threshold (using the exchange rate) brings Canada up to Germany's level, while extending Australia's lead.

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