

IF MONEY TALKS, WHAT DOES IT SAY?

Varieties of Capitalism and Business Financing of Parties

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IF money talks, what does it say? Why do businesses contribute to political parties? Is money a universal language? Do business contributions to political parties convey different messages in different countries? Since parties and firms are the key collective actors of capitalism and representative democracy,¹ the answers to these questions are fundamental to our understanding of capitalist democracy and the variety therein. This article is a pioneering cross-national study of firm behavior in political finance. Australia, Canada, and Germany were chosen as country cases because they have experienced turnovers under transparent and permissive regulations of political finance. The main part of the article infers motivation by relating the strategies of 960 firms to variations in political competition in the three countries over periods of between seven and seventeen years. This quantitative analysis is supplemented by a qualitative investigation of the nature of exchanges between firms and parties.

The article aims to measure and explain variation in the pragmatic and ideological motivations for business contributions to political parties. The pragmatic motivation seeks private goods from the political

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¹ Schattschneider 1942, 1.

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system. In other words, pragmatic money is interested money. Another popular, but very different, explanation is that business contributions to parties are ideological. 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, including a developmental state. These very different motivations should have important consequences for politics and economies. Pragmatism's effects on public policy should be disorganizing and distorting. In the language of American politics, the more important is the 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 are aimed at influencing political competition. They usually bolster right-wing parties and thus represent a different sort of conservatism than pragmatism. However, they should not have any direct effect on public policy and only influence it by acting as a right-wing bias in the political system more generally.

Does the relative importance of ideology and pragmatism vary according to the political-economic context and, if so, why? In liberal market economies, the highly competitive, short-term focus of firms should generate substantial demand for private goods that could help firms develop advantages over their rivals. Pragmatism should be an important motivation for business financing of parties, and since pragmatism is embedded in the basic profit-seeking mission of the firm, the contribution rate should be high. The preference for less state intervention and the awareness of the state's power to disrupt the business environment is likely to engender a widespread awareness of the importance of public-policy goods to the overall business sector. This should result in a relatively important ideological motivation in business contributions to parties. However, this political effect should interact with the party system. In a polarized political system, the political risk should be greater. If there is little difference between parties' economic policies and reputations, the political risk is low and the ideological motivation is likely to be marginal.

In a coordinated market economy, the most important policies for firms tend to be the public goods defined, championed, and, to a substantial extent, actually delivered by their business associations. In this context, the pragmatic motivation for contributions to political parties is likely to be very weak. The combination of consensual political insti-

tutions and constrained parties means there is a very low risk of major policy change from election to election. So, there is also likely to be low interest in ideological financing of political parties. Since both motivations are undermined by the political economy, the contribution rate should be very low.

In Canada, until the ban on corporate donations in 2004, money tended to speak pragmatically. A large number of firms sought an unlikely but potentially large benefit in exchange for a certain but small benefit to a party. In Germany, money tends to speak ideologically. A small number of companies grant a certain but small benefit to a party as an expression of a political preference. In Australia, pragmatism dominates, but there is also an ideological preference for the right. This mix of motivations is combined with a high contribution rate. These patterns are associated with fundamental differences in political economies and party systems. Pragmatic Canada and Australia are liberal market economies, while Germany is a coordinated market economy. Canada's two traditional principal parties were almost ideologically indistinguishable, while Australia's parties compete on a left-right basis.

The next section places this research in the context of the wider literature on business and politics. The dependent variable and independent variables are introduced in turn. A multinomial logit and associated simulations measure ideology and pragmatism in each country case. The penultimate section investigates discrete and reciprocal exchanges motivated by pragmatism. The conclusion summarizes and considers the wider significance of this three-country study.

FIRMS, PARTIES, AND DEMOCRACY

This article contributes to the abundant literature on the uneasy but vital relationship between capitalism and democracy.² The tension between the currencies of the market and democracy, between money and votes, is an inherent one.³ The political influence of big business is generally divided into intentional and structural categories.⁴ A useful way of thinking about intentional business behavior is to distinguish between different actors.⁵ The firm can approach politics directly⁶ or

² Mills 1959; Frye and Shleifer 1997; Dahl 1998, 179; Kaufmann, Kraay, and Zoido-Lobaton 1999; Olson 2000.

³ Lindblom 1977, 189–200; Vogel 1996.

⁴ Lindblom 1977, 193–94; Offe 1985, 170–220.

⁵ Wilson 1990; Hillman, Keim, and Schuler 2004.

⁶ Salisbury 1984; Useem 1984; Coen 1997; Martin 2000.

through intermediaries such as business associations⁷ or political consultants.⁸ 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 one. 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 giving⁹ 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 literature of business and politics, it does not fit easily into an existing research program. Many of the above permutations of business and political actors have been intensely studied, but the literature on the relationship between firms and political parties is sparse. Beyond Wyn Grant's discussions of the "party state,"¹⁰ only a handful of systematic treatments are to be found.¹¹ 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.¹² There are a few interesting country studies based on firms.¹³ Susan Scarrow draws some noteworthy comparative conclusions from the absolute and relative size of corporate and individual contributions to parties in Germany and the U.K., but her study does not focus on firm motivations¹⁴

The literature most relevant to this article is the voluminous research on business financing of politics in the U.S. Like the research presented here, it exploits firm-level data on payments to politicians. When compared to the potential value of benefits, business spends very little on

⁷ Schmitter and Streeck 1981; Bennett 1999; Greenwood and Jacek 2000.

⁸ Heinz, Laumann, Nelson, and Salisbury 1993.

⁹ Hansen and Mitchell 2000.

¹⁰ Grant, Martinelli, and Paterson 1989; Grant 1993, 13–18.

¹¹ Hopkin 1997; Della Porta 2004.

¹² Williams 2000; Nassmacher 2001; Scarrow 2007; Smilov and Toplak 2007.

¹³ Stanbury 1993, 291–318; Fisher 1994; Ramsay, Stapledon, and Vernon 2002; Bond 2007.

¹⁴ Scarrow 2006.

political contributions.¹⁵ Surely, this reflects the costs politicians incur by taking business money. Politicians must be seen to represent their constituencies in order to gain reelection. They cannot afford a perception that their political support can be bought. In a democracy, politicians need to emphasize that the currency of votes trumps that of money. Politicians have to manage their relationship with business supporters in such a way as to minimize this cost. In terms of fundraising, politicians can try to raise money from nonbusiness 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.

In the U.S., business contributions are variously interpreted as more or less legal bribery,¹⁶ purchase of access to politicians,¹⁷ signals to bureaucrats¹⁸ and legislators,¹⁹ mere gifts,²⁰ and “interested gifts,” which generate an obligation to reciprocate.²¹ This last interpretation is the most convincing and has much in common with my emphasis on reciprocal exchange between businesses and parties. It is consistent with a number of observations that are generally accepted in the American literature: contributions are small,²² they are distributed strategically,²³ and they are not routinely associated with policy benefits.²⁴ 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.²⁵ So, this political investment is like a venture capital investment.

The U.S. literature provides a very useful discussion of possible costs and benefits of business financing of politics, but it is not framed comparatively. Indeed, the U.S. is a very awkward case from which to attempt to generalize. Its presidential system works very differently from the largely parliamentary regimes of other older democracies. Its elections and political finance are candidate-centered, unlike the party-dominated systems of other countries. Finally, and perhaps most impor-

¹⁵ Tullock 1972; Ansolabehere, de Figueiredo, and Snyder 2003, 108–9.

¹⁶ Drope and Hansen 2004.

¹⁷ Hall and Wayman 1990.

¹⁸ Gordon and Hafer 2005.

¹⁹ Hall and Deardorff 2006, 80.

²⁰ Milyo 2002.

²¹ Clawson, Neustadt, and Weller 1998; Gordon 2005.

²² Sorauf 1992, 187; Ansolabehere, de Figueiredo, and Snyder 2003, 108–109.

²³ Ansolabehere, de Figueiredo, and Snyder 2003, 110; Stratmann 2005, 147–48; Krozner and Stratmann 2005.

²⁴ Ansolabehere, de Figueiredo, and Snyder 2003, 113–14.

²⁵ Stigler 1971, 4–6; Clawson, Neustadt, and Weller 1998, 68–71.

tantly, there are major limits on the source, size, and purpose of business contributions in the U.S. The “bizarre and incongruous regulations”²⁶ pertaining to political finance in America mean it is actually very difficult to interpret the reported payments as indicators of the calculations of businesses. The next section introduces a conceptual framework that can capture and measure ideological and pragmatic motivations.

DEPENDENT VARIABLE: IDEOLOGY AND PRAGMATISM

The distribution of ideologically motivated donations should be relatively stable over time because 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 continuing to express its ideological preference by also funding the right-wing opposition. A firm’s distribution of cash to parties is a strategic decision that takes into account political power and, if it has one, its ideological position.

At any point in time, the distribution of a firm’s money can be to the left, to the right, a hedge between left and right, or not distributed at all (no contributions). If we consider two time points, shifts between the four basic distributions give us the sixteen cells in Table 1. Dividing the two time points by a change of government, we can identify some of the strategies as clear indicators of ideological (no color) and pragmatic motivations (black). In Table 1, 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 strategy. Other strategies suggest an interaction of ideological and pragmatic motivations (grey). The firms that did not contribute while the right

²⁶ Persily 2006, 219.

TABLE 1
CLASSIFICATION OF TURNOVER STRATEGIES

<i>Right in Power</i>	<i>Left in Power</i>			
	<i>No Contribution</i>	<i>Hedge</i>	<i>Left</i>	<i>Right</i>
No Contribution			interaction	
Hedge		pragmatic	interaction	
Left			ideological	
Right	interaction	interaction	pragmatic	ideological

was in power, but contribute to the left when it is 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 contribute exclusively to the left under a left-wing government, suggest a similar mix of pragmatism toward right-wing governments and a preference for the left. The same logic applies to those that contribute to a right-wing government but abstain from political finance under the left and firms that plump for the right in government but hedge after a turnover. The other eight cells do not have implications for the underlying motivations of the firms.

Pragmatic firms finance parties in exchange for benefits from the political system. This can happen as a discrete or a reciprocal exchange. A discrete exchange is explicit and simultaneous. By contrast, in a reciprocal exchange, each actor's part of the exchange is separately performed and the terms are unstated and uncertain.²⁷ Reciprocal exchanges are likely to involve more and smaller payments. These two forms of pragmatism are associated with different strategies. A firm that moves its money from right to left as power shifts from right to left is seeking a discrete exchange. A pragmatic firm that funds parties whether or not they are in government is betting on a reciprocal exchange. Firms that hedge consistently between government and opposition are likely to be seeking a reciprocal exchange from the opposition that may come to power in the future. A party that values a steady income stream and that values income when it is most needed, has good reason to reciprocate. Moreover, discrete exchanges should be associated with larger

²⁷ Molm 2000, 261–62.

payments than reciprocal exchanges. Reciprocal exchanges have lower potential publicity costs. Since the payment and policy benefit do not occur simultaneously, they are less likely to be associated with each other by those outside the exchange. Even if they are, the absence of simultaneity makes for plausible deniability. Also, the value of contributions associated with reciprocal exchange is an accumulation of past and expected future payments. Finally, of course, payments received by a party in opposition have a greater value, dollar for dollar, than payments received by a party in government.

It is possible to think of seemingly pragmatic rationales for the strategy that has been coded ideological in Table 1. However, such rationales do not survive the clear-headed, politically aware, and business-focused cost-benefit analysis that defines the pragmatic firm. First, firms could donate to influence the outcome of an election. This is only conceivable for a truly massive donation. Usually the probability of influencing an election, multiplied by the probability of the party delivering the benefit, is so low that cost is not justified as a profit-seeking investment. Second, a contribution to an opposition party should generate a much greater obligation on the part of the party and, therefore, a greater likelihood of a valuable reciprocal exchange if and when the party gains power. However, it is not pragmatic to ignore the party in power because of the hope that the currently powerless opposition will be grateful one day.

Third, it might be that the probability of receiving a benefit is much greater from one party than from another. However, parties rarely have strong opinions on narrowly targeted policies that produce private goods for one firm. Instead, they may have preferences in relation to broader business issues such as the corporate tax rate, the importance of manufacturing industry, and interest rates, among others. These preferences are reflected in policies that create public goods that are, of course, subject to collective action problems. Differences in broad policies areas are likely to reflect ideological differences between parties. Firms seeking to support such policies will be ideologically motivated.

The fourth and final possibility is the most likely one. The closer an election, pragmatic firms should be less biased toward the government and more likely to hedge. A pragmatic firm, however, should not switch from government to opposition unless it appears very likely that there will soon be a turnover of power. This is essentially the same strategy as shifting from right to left, as power shifts from right to left.

INDEPENDENT VARIABLES: VARIETIES OF CAPITALISM

The varieties of capitalism approach to political economy stresses the “complementarity,”²⁸ “elective affinity,”²⁹ or “equilibrium”³⁰ between a whole range of institutions at the political, legal, social, and economic levels.³¹ Peter Hall and David Soskice’s canonical presentation highlights institutions that affect the immediate environment of firms. Here I combine Hall and Soskice’s analysis of the firm with Torben Iversen’s³² and Stewart Wood’s³³ emphasis on the political system’s ability to credibly commit. I then argue that these fundamental differences in political economy should result in very different levels of ideology and pragmatism in business financing of parties.

Australia and Canada are regarded as liberal market economies.³⁴ They exhibit each of the institutional complementarities that form the basis of the comparative advantage of liberal market economies. First, the stock exchange dominates the financial system. The value of domestic publicly listed firms is over 100 percent of gross domestic product (GDP), a value very similar to that of the U.S. Firms need to attend to their share price and current profitability. Second, in industrial relations, companies rely on the market to govern relations with their employees. Australian and Canadian levels of employment protection are relatively low and similar to each other, only separated by New Zealand in an eighteen-country study.³⁵ This means firms have the flexibility to chase the short-term results that the stock market demands. Third, both countries emphasize generalist training and education, rather than industry-specific apprenticeships.³⁶ Thus, workers can adapt to changing firm strategies and, more importantly, to a number of jobs over their careers. Fourth, in both countries contracts and competition tend to

²⁸ Hall and Soskice 2001, 17; Iversen 2005, 164.

²⁹ Kitschelt, Lange, Marks, and Stephens 1999, 430.

³⁰ Iversen 2005, 148.

³¹ Liberal and coordinated market economies are the two dominant types among the long-established rich democracies. The varieties of capitalism approach has also been used to identify a dependent market economy in postcommunist Europe (see Nölke and Vliegthart 2009) and a rather different type of coordination in East Asia (see Hall and Soskice 2001, 34–35). Some authors distinguish between two types of national and sector-coordinated economies in Western Europe (see Kitschelt, Lange, Marks, and Stephens 1999, 429–30). Italy is a mixed type displaying important characteristics of both the mixed and liberal types (Iversen 2005, 58; Soskice 1999, 112–15).

³² Iversen 2005, 122–82.

³³ Wood 2001.

³⁴ Bernard 2008; Kitschelt, Lange, Marks, and Stephens 1999, 435–36; Rueda and Pontusson 2000, 365; Hall and Soskice 2001, 19–20, 59.

³⁵ Estevez-Abe, Iversen, and Soskice 2001, 165.

³⁶ Culpepper 2007, 618–21.

define interfirm relations. Crucially, business associations play little or no role in the basic economic strategy of the firm. Instead, associations offer lobbying functions or sell marketing and public relations services that could be, and often are, also offered by other firms. Once again, this fits into the relatively short-term focus of the firm in a liberal economy. In Australia and Canada, business associations have tended to be weak, divided, and only intermittently effective in politics.³⁷ Attempts to give such associations a substantial, institutionalized role in policy-making and implementation have failed at both national and, to a lesser extent, sectoral levels.³⁸

Fifth, both countries have majoritarian political systems. Their executives are relatively unconstrained by the legislatures. Indeed, the prime minister dominates the cabinet.³⁹ Majoritarian polities cannot credibly commit to providing the support and collaboration that a coordinated market economy requires. In this political context, it is to be expected that firms will have a more short-term focus, greater flexibility, and a greater potential for radical innovation. Firms tend to advocate less state intervention as this reduces the policy risk and most firms in liberal economies do not need the range of state-provided or state-supported institutions that are important in coordinated economies.

Sixth, Australia's party system is relatively typical of a liberal market economy; it is based on a simple left-right divide.⁴⁰ Australia's center-right is 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 referred to as "the Coalition.") Both have small memberships, ideological flexibility, and strong leadership. They compete with the Australian Labor Party (ALP), which has strong links to trade unions; a large, relatively stable membership; and an enduring conflict between more- and less-ideological factions. As in similar political economies, the center-right tends to be more successful.⁴¹ The majoritarian electoral system tends to give the right an advantage. The median voter is not attracted to long-term social insurance and means-tested benefits for the poor.⁴² Australia's more flexible center-right also has an advantage in targeting its electoral campaign at the shifting concerns of the median voter.

³⁷ Boatright 2009, 26–27.

³⁸ Jacek 1986; Bell 1995; Bell 2006, 162; Haddow 2002.

³⁹ O'Malley 2007, 17, 19–20; Savoie 1999.

⁴⁰ Iversen 2005; Kitschelt, Lange, Marks, and Stephens 1999, 431, 434. McAllister 2002, 384.

⁴¹ Iversen 2005, 160. Sharman and Moon 2003, 268–69.

⁴² Iversen 2005, 124–26, 142.

In this respect, the Canadian party system is unusual. 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” parties⁴³ or franchise organizations⁴⁴ and assembled relatively diverse electoral coalitions from across Canada. Before the earthquake election of 1993,⁴⁵ the two had very similar profiles on economic matters, with the Progressive Conservatives having a somewhat stricter reputation in relation to budgetary management.⁴⁶ The membership of these two old Canadian parties tended to spike around general and party leadership elections. Indeed, many members seem to be loyal first and foremost to a parliamentary or leadership candidate.⁴⁷ In Canada there is an even greater political bias against the left and toward short-term policy flexibility than in Australia.

The intensely competitive, short-term focus of firms in liberal market economies generates substantial demand for private goods that could help firms develop an advantage over their rivals. Pragmatism should be an important motivation for business financing of parties and, since pragmatism is embedded in the basic profit-seeking mission of the firm, the contribution rate should be high. The preference for less state intervention and the awareness of the state’s power to disrupt the business environment generates a widespread awareness of the importance of public policy goods to the business community. This results in a relatively important ideological motivation behind business contributions to parties. Canada’s unusually nonideological party system provides a special opportunity to separate out the effects liberal market economies have on ideological and pragmatic contributions to political parties.

Germany is the archetypical coordinated market economy⁴⁸ and provides a contrast to liberal Australia and Canada in all six spheres. First, in the market for corporate governance, the stock exchange is complemented by networks of firms and banks that provide other opportunities for finance.⁴⁹ This allows firms to pursue long-term strategies that do not necessarily maximize short-term share price and profitability. Germany’s domestically owned publicly listed firms are half as valuable as a percentage of GDP as their equivalents in Australia and Canada. Second,

⁴³ Carty 2002b, 726.

⁴⁴ Carty 2002b, 730.

⁴⁵ Cairns 1994.

⁴⁶ Bélanger 2003, 544.

⁴⁷ Carty 2002a, 356.

⁴⁸ Hall and Soskice 2001, 21–27.

⁴⁹ Vitols 2001, 342–43.

employment security is very high and the institutionalized equalization of wages within sectors reduces incentives for workers to move from employer to employer. This encourages firms to commit to long-term specialization and incremental innovation. Third, training and education is often highly specific to a particular company or industry. Of course, this system matches employees' qualifications and incentives to the relatively long-term and niche strategies of firms. Fourth, interfirm relations exhibit both institutionalized and informal cooperation, as well the market relationships of competition and contract. Business associations are powerful organizations that tend to speak authoritatively for the interests they represent.⁵⁰ Their importance depends on, and reflects, their indispensability to the basic strategies of member firms. Business associations often play a vital role by facilitating the diffusion of technology across firms and ensuring that the state plays an effective role in supporting and subsidizing research and training, sector by sector.⁵¹ Business associations set standards that are then granted legal status by the courts.⁵²

Fifth, Germany's executive is much more constrained than those of liberal market economies. These constraints include a powerful parliament with an upper house that can veto about sixty percent of legislation; the European Union, which establishes many of the regulatory and trade policies that are subject to intense lobbying in liberal market economies; and the organized interests so vital to the success of a coordinated economy. This consensual system underpins the highly credible commitment of Germany to stable public policy that supports the long-term investment and cooperation needed for the incremental innovation in which coordinated market economies have comparative advantage.⁵³

Sixth, Germany's political parties have less ideological flexibility and a weaker right-wing bias than their counterparts in liberal market economies. The German center-right is occupied by the Christian Democratic Union (CDU) and its rather more conservative Bavarian ally, the Christian Social Union (CSU). The Christian Democratic leaders have not had authority and flexibility comparable to their equivalents in the Australian and Canadian center-right since Konrad Adenauer's dominance of postwar Germany. The CDU finds it difficult to pursue right-wing policies as it genuinely straddles the center and has impor-

⁵⁰ Streeck 1983.

⁵¹ Streeck 1992.

⁵² Casper 2001, 391.

⁵³ Streeck 1992, 36.

tant links to Christian labor unions.⁵⁴ On the left is the Social Democratic Party (SPD), with its roots in socialism and continuing strong links to labor unions. The ideological distance between the SPD and the Christian Democrats was at its greatest in the 1950s.⁵⁵ Since then the SPD has managed—with varying levels of success—tensions between its left-wing and technocratic centrists.⁵⁶ The 1990s saw the rise of the Alliance 90/the Greens and the Party of Democratic Socialism, heir to East Germany's Socialist Unity Party. This meant the SPD had serious competition on its left and reduced incentives to move to the center.⁵⁷ German parties have relatively weak capacities and incentives to maneuver ideologically in pursuit of the median voter. Nevertheless, leaders' dependence on left-wing or broadly consensual party structures means their parties can credibly commit to policies that support individuals' and firms' investment in highly specialized skills and markets.

In coordinated Germany, the most important policies for firms tend to be the public goods defined, championed, and, to a substantial extent, actually delivered by their business associations. In this context, the pragmatic motivation for contributions to political parties is likely to be very weak. The combination of consensual political institutions and constrained parties means there is a very low risk of major policy change from election to election. As a result, there is also likely to be low interest in ideological financing of political parties. Overall, contributions to parties should be rare.

The varieties-of-capitalism approach seeks to explain cross-national differences. There are, of course, variations in behavior within national political economies, which an emphasis on national institutional frameworks, however anchored in the logic of the individual firm, cannot explain. The dominant approach to explaining firm behavior has been to focus on economic characteristics—chiefly size and business sector.⁵⁸ Crucially, different sectors have different exposure to politics⁵⁹ and different incentives to finance political parties. In addition, there are convincing arguments that the internal organization of a firm, such as the presence of a government-relations division or the importance of the human resources department, can influence its political behavior.⁶⁰

⁵⁴ Wood 2001, 254, 271.

⁵⁵ Pulzer 1995, 70; Smith 1982, 98–101.

⁵⁶ Pulzer 1995, 125, 137. Padgett 2003.

⁵⁷ Kitschelt 1999, 329.

⁵⁸ Martin 2006, 53–56.

⁵⁹ Stigler 1971.

⁶⁰ Martin 2000; Martin 2005; Martin 2006, 56–62.

CASES AND SAMPLES

The criteria for selecting country cases were the transparency and permissiveness of the political finance regime and the existence of a government turnover. As in the U.S., Australia, Canada, and Germany enforce relatively high levels of transparency. The three countries' similarly low levels of corruption suggest that disclosure variations have not systematically biased conclusions about the differences between the cases.⁶¹ 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 U.S., none of these countries limits the amounts businesses can give. There were also no restrictions on how contributions 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. Australia, Canada, and Germany seem to be the only three cases currently existing that combine transparency, permissiveness, and turnover to provide vital intracase variation in political circumstances.

Samples have been drawn from published lists of the largest firms in each country. 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 that have less than 50 percent state ownership. The research design avoids the potential sample-selection bias⁶² that is sometimes evident in the study of the distribution of contributions.⁶³ The Australian data set exploits the essentially uniform political finance regulations and party systems at the federal level and within its six states, while the Canadian and German studies are restricted to the federal level. There is at least one clear turnover in each sample. Table 2 presents basic information about the samples.⁶⁴

These quantitative sources are supplemented by a qualitative study that explores the relative importance of discrete and reciprocal exchanges in party-firm relations. The qualitative data were mostly obtained from

⁶¹ Available at http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table.

⁶² Munger 1988; Kim 2008.

⁶³ Fisher 1994; Burris 2001.

⁶⁴ The data is available at <http://webpages.dcu.ie/~mcmenami>.

TABLE 2
CHARACTERISTICS OF SAMPLES^a

	<i>Firms</i>	<i>Years</i>	<i>Jurisdictions</i>	<i>Observations</i>	<i>Elections</i>	<i>Turnovers</i>
Australia	450	7 (1999–2005)	7	22,050	14	1
Canada	195	17 (1984–2000)	1	3,315	4	2
Germany	315	14 (1992–2005)	1	4,410	3	1

^a Firms with over 50 percent direct state ownership have been excluded. The Australian sample is defined by membership in the *Business Review Weekly* Top 1,000 in 1999 and 2005. The starting date is set by the availability of electronic records, and the end date is set by a major regulatory change that moved the threshold for reporting from A\$1,500 to A\$10,000 per annum. The Canadian sample is defined by membership in the *Globe and Mail Report on Business* Top 1,000 in 1983 and 1998 (available at <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 in the *Die Welt* Top 500 in 1997 and 2002 (available at <http://top500.welt.de>). Nineteen ninety-two is the beginning of the German sample because of a large reduction in the threshold for reporting introduced that year and 1997 is the earliest year for which the *Die Welt* list is available. Two thousand five is the last year for which data is available. The formation of a grand coalition in Germany in 2005 is not counted as turnover.

key-word searches in the LexisNexis database. This generated a corpus of articles: 475 documents and 202,000 words for Australia, 641 documents and 365,000 words for Canada, and 320 documents and 303,000 words for Germany. Given the cost of visible exchanges to firms and politicians, it is difficult to obtain more direct evidence. Many of the newspaper accounts focus on this article's research question; they seek to identify the benefit gained by businesses that contribute to political parties. The qualitative interpretations are consistent with the rigorously collected and analyzed quantitative data. The next section presents an analysis of the statistical data.

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. To begin the study of firm strategy, a measure of *bias* has been calculated and is defined as payments to the major left-of-center party as a proportion of payments to the two main parties (or electoral coalitions). For Australia, *bias* is a firm's payments to the Australian Labor Party over its payments to the Australian Labor Party, the Liberal Party and its permanent ally, the National Party. For Canada, *bias* is payments to the Liberals over payments to the Liberals

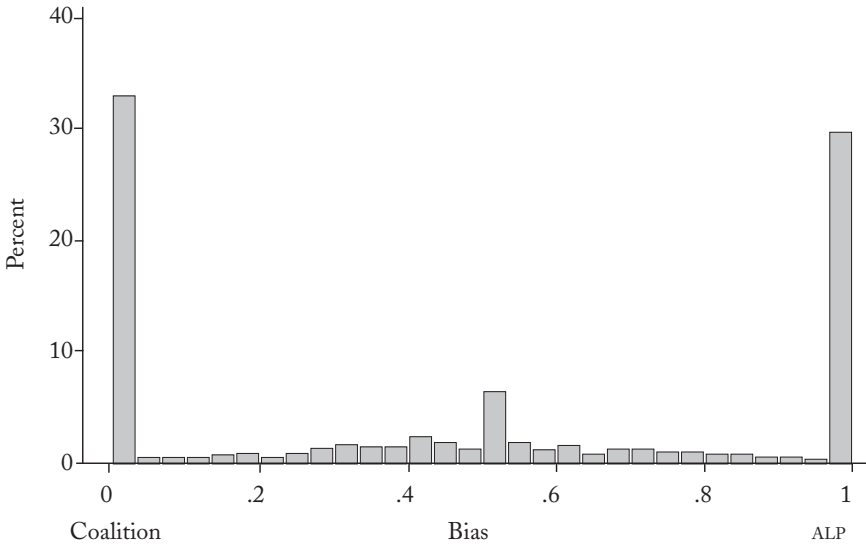


FIGURE 1
DISTRIBUTION OF BIAS IN AUSTRALIA^a

^a Obs. = 2,162; 239 firms. *Bias* is the reported contributions to the Australian Labor Party (ALP) over payments to the ALP and the Liberal-National coalition in a given jurisdiction in a given year.

and the Progressive Conservatives. In Germany, it is contributions to the Social Democratic Party over donations to the Social Democratic Party and the Christian Democratic Union and its permanent ally, the Christian Social Union. As shown in Figures 1–3, the distribution of payments across the three samples is very different. In Australia, most 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. In Germany, the vast majority of firms made contributions to the CDU-CSU exclusively, with only a handful choosing the SPD. Firms clearly cluster around the strategies introduced in the theoretical framework: no contribution, a clear preference for one party, or hedging. More subtle distributions are 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).

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*, which counts the number of years until the next

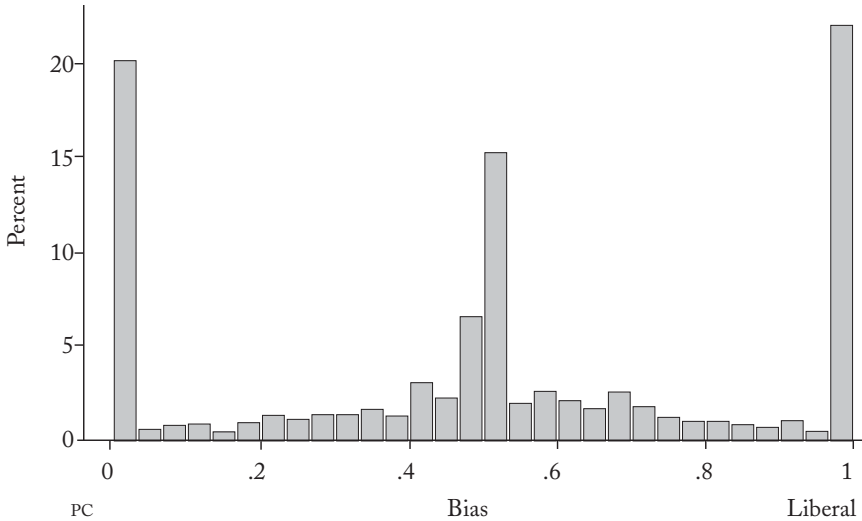


FIGURE 2
DISTRIBUTION OF BIAS IN CANADA^a

^a Obs. = 1,696; 167 firms. *Bias* is the reported contributions paid to the Liberal Party over payments to the Liberal Party and Progressive Conservative Party (PC) in a given year.

constitutionally mandated election. *Poll* uses monthly opinion polls to compute the probability of the left-wing party winning more votes than its right-wing competitor in the event of an immediate election.⁶⁵ There are also interactions of *left* and *poll* with the number of years to the next election. Then there is a firm's *income* (logged to reduce the impact of outliers).⁶⁶ Larger firms are more likely to hedge because of the lower costs of payments relative to their income. Finally, the firms have been classified into seven sectors based on amalgamations of the UN International Standard Industrial Classification because of collinearity problems in more disaggregated versions.

The models reported in Table 3 are multinomial logits. The separate equations predict the logged odds of each of the contribution cat-

⁶⁵ Australia: Roy Morgan Poll, two-party preferred voting intentions, except for Tasmania's Single-Transferrable Vote system where I have used first preferences. Canada: Gallup Poll. Germany: Politbarometer, weighted by the populations of the former East and West Germany.

⁶⁶ Australian incomes interpolated for 2000, 2001, 2003, and 2004. Canadian income figures imputed from data for 1983, 1987, 1994, and 1998 using Amelia II (see King, Honaker, Joseph, and Scheve 2001). German incomes imputed from data for 1997, 1998, 1999, 2002, and 2005, excluding banks and insurers for which no income figures are available.

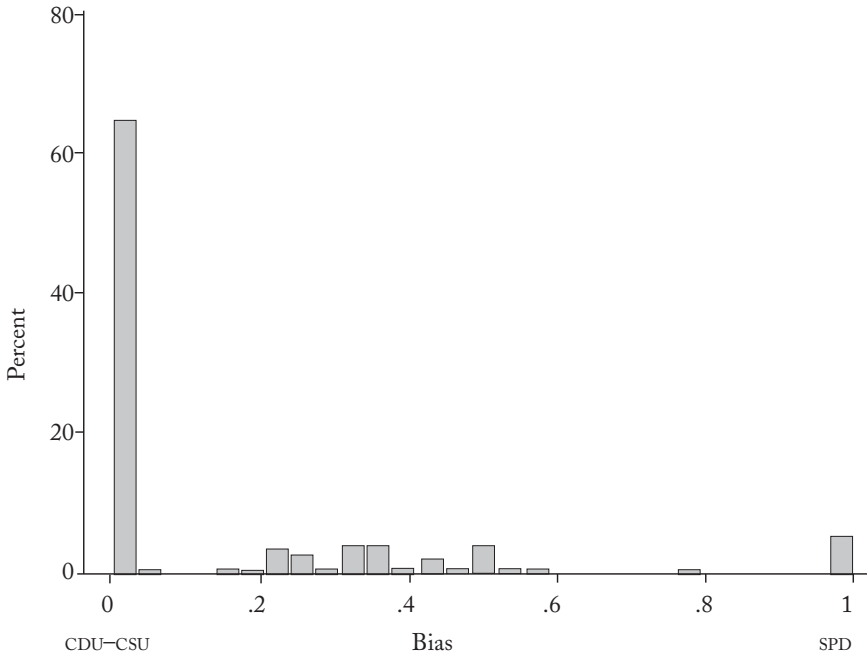


FIGURE 3
DISTRIBUTION OF BIAS IN GERMANY^a

^a Obs. = 191; 59 firms. *Bias* is the reported contributions to the Social Democratic Party (SPD) over payments to the SPD and Christian Democratic Union-Christian Social Union coalition in a given year.

egories by reference to no contribution. 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. Standard errors are clustered by firm to account for heteroskedasticity. There is no such neat solution to deal with potential time dependence in multinomial logits, and likelihood-ratio tests showed the necessity of including year dummies⁶⁷ in the Australian and Canadian equations (see models 4 and 5). The *poll* variable was severely collinear with *left* in the Canadian case and did not pass a likelihood-ratio test for Germany, but is featured in model 6 for Australia. Likelihood-ratio tests also suggested the inclusion of interactions of *left* with the electoral

⁶⁷ Beck, Katz, and Tucker 1998 prefer using cubic splines rather than year dummies, but there was insufficient variation in the data sets to compute the cubic splines. In both the Australian and Canadian cases, the reference year was the first one of the sample. There were some collinearity problems in the Canadian sample that were alleviated by the additional omission of the last year.

TABLE 3
MULTINOMIAL LOGIT ESTIMATES OF FIRM STRATEGY

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>	<i>Model 6</i>
	<i>Australia</i>	<i>Canada</i>	<i>Germany</i>	<i>Australia</i>	<i>Canada</i>	<i>Australia</i>
	<i>Hedge</i>	<i>Hedge</i>		<i>Hedge</i>	<i>Hedge</i>	<i>Hedge</i>
Left	0.15 [0.118]	-0.597 [.0.15]***		-1.045 [0.27]***	-2.087 [0.39]***	-1.187 [0.36]***
Years	-0.36 [0.061]***	-0.277 [0.031]***		-0.9 [0.15]***	-0.326 [0.06]***	-0.13 [0.69]
Left*Years				0.62 [0.14]***	0.252 [0.092]***	0.739 [0.2]***
Poll						1.163 [1.54]
Poll*Years						-0.9 [0.82]
Constant	-2.784 [0.681]***	-11.473 [1.27]***		-2.14 [0.64]***	-11.2 [1.28]***	-3.19 [1.68]*
	<i>Right</i>	<i>Right</i>	<i>Right</i>	<i>Right</i>	<i>Right</i>	<i>Right</i>
Left	-0.473 [0.08]***	-1.196 [0.147]***	-0.21 [0.175]	-0.973 [0.155]***	-3.72 [0.8]***	-0.6 [0.248]**
Years	-0.09 [0.03]***	-0.214 [0.034]***	-0.108 [0.066]	-0.25 [0.058]***	-0.17 [0.06]***	0.445 [0.315]
Left*Years				0.2 [0.063]***	0.46 [0.18]**	0.256 [0.116]**
Poll						-0.657 [0.77]
Poll*Years						-0.776 [0.396]*
Constant	-2.52 [0.275]***	-4.619 [0.874]***	-4.939 [0.604]***	-2.11 [0.31]***	-4.86 [0.9]***	-2.06 [0.685]***
	<i>Left</i>	<i>Left</i>	<i>Hedge/Left</i>	<i>Left</i>	<i>Left</i>	<i>Left</i>
Left	0.146 [0.113]	0.849 [0.162]***	0.684 [0.33]**	-0.82 [0.223]***	0.385 [0.39]	-1.53 [0.282]***
Years	-0.163 [0.029]***	-0.066 [0.0278]**	-0.215 [0.128]*	-0.6 [0.09]***	-0.242 [0.1]**	1.43 [0.52]***
Left*Years				0.458 [0.1]***	0.19 [0.115]*	0.725 [0.127]***
Poll						6.22 [1.52]***
Poll*Years						-2.32 [0.58]***
Constant	-3.056 [0.241]***	-6.873 [0.858]***	-8.14 [1.272]***	-2.555 [0.325]***	-6.47 [0.88]***	-8.05 [1.4]***
Year dummies	no	no	no	yes	yes	yes
Observations	22,050	3,315	4,410	22,050	3,315	22,050

Robust standard errors, clustered by firm, in brackets. *** significant at 1%; ** significant at 5%; * significant at 10%. Income and sectoral controls included in all equations.

timetable in models 4, 5 and 6, and *poll* with the electoral timetable in model 6. The resulting equations are highly complex. For example, there are three twenty-five variable equations in model 5. Moreover, the year dummies, *years* variable, *left* variable, *poll* variable, and their interactions are all potentially collinear as they track changes in political context from year to year. Unfortunately, this also makes for presentational problems that I confront by presenting several models. The first three relatively straightforward models ensure maximum comparability across all country cases. The next two combine statistical accuracy and comparability of Canada and Australia, while the final, Australia-only model uses the maximum amount of information to probe into ideological and pragmatic strategies. The nature of multinomial logit coefficients makes their substantive implications difficult to discern and this is, of course, a greater problem with lots of variables and interactions. However, the models can be used to produce predictions in the form of the sixteen-cell table of strategies presented in Table 1. Each simulation is derived from the most complex model for each country.⁶⁸ The rank order of predicted strategies is almost identical for the basic and complex models.⁶⁹

Left and/or its interaction with *years* significantly increase the probability of contribution to the left and decrease the probability of contribution to the right in all models of Table 3, except for right-wing contributions in Germany. In the context of highly complex equations and potential collinearity, the power and consistency of the basic political variables is very impressive.⁷⁰ Tables 4, 5, and 6 use the coefficients from

⁶⁸ For Canada and Germany all variables remain at sample values, except for *left* and its interaction. For model 3, *poll* is set at 0.5 and its interaction is appropriately modified.

⁶⁹ In Table 3, model 1, the ALP-ALP strategy is fifth instead of sixth and the coalition-hedge strategy is sixth instead of fifth.

⁷⁰ These conclusions were subjected to a number of robustness tests. 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 percent of firms in these categories also made no substantive difference to model 3. The predicted rank order of the strategies is the same as reported in Table 5 above. Also, the Australian data set contains contributions reported in seven different jurisdictions. I ran model 3 with a variable measuring gross state product for the states and gross domestic product for the Commonwealth. This method provides a good indicator of the relative economic importance of the states, but overestimates the Commonwealth's importance. Indeed, the New South Wales and Victorian contribution rates were higher than the federal level. I ran another version with the Commonwealth value held at the maximum state level (New South Wales). These two versions produced the same order of strategies, slightly different from model 3 with coalition-hedge and coalition-ALP swapping fourth and fifth places and hedge-hedge and ALP-ALP swapping sixth and eighth places. This suggests a marginally stronger ideological motivation. 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. A more obvious, but less theoretically appealing, alternative is to apply the German threshold on the basis of purchase-power parity. This reduces the contribution

TABLE 4
PREDICTED TURNOVER STRATEGIES: CANADA

<i>Right in Power</i>	<i>Left in Power</i>			
	<i>Noncontribution</i>	<i>Hedge</i>	<i>Left</i>	<i>Right</i>
Noncontribution	0.22		0.12	
Hedge		0.029	0.067	
Left			0.02	
Right	0.15	0.035	0.08	0.015

TABLE 5
PREDICTED TURNOVER STRATEGIES: AUSTRALIA

<i>Right in Power</i>	<i>Left in Power</i>			
	<i>Noncontribution</i>	<i>Hedge</i>	<i>Left</i>	<i>Right</i>
Noncontribution	0.086		0.097	
Hedge		0.0015	0.0021	
Left			0.0024	
Right	0.281	0.009	0.12	0.036

TABLE 6
PREDICTED TURNOVER STRATEGIES: GERMANY

<i>Right in Power</i>	<i>Left in Power</i>		
	<i>Noncontribution</i>	<i>Hedge/Left</i>	<i>Right</i>
Noncontribution	0.915	0.0114	
Hedge/ Left		0.00007	
Right	0.0363	0.0005	0.0012

rates for Canada and Australia, but they are still three times that of Germany. Finally, the Canadian and German party systems are more complex than Australia's. To the left of the Social Democrats in Germany are the Greens. However, they have reported only occasional business donations. Thus, there is no overestimation of ideological bias because of their exclusion. To the right (on business matters, at least) of the Christian Democrats and Christian Socials are the Free Democrats, who do attract business donations. Thus, the bias to the right may be even greater than that reported above. In Canada, the New Democrats to the left of the Liberals have never attracted serious numbers of business donations. After 1993, the Progressive Conservatives lost much of their parliamentary representation to the upstart right-wing Reform Party. However, the reformers did not attract enough business funding to seriously modify the results reported here (see Curtis 1999; Elections Canada 1997, 2000).

Table 3 to predict the probabilities of different strategies as government turns over from right to left.

The predictions for Canada (Table 4) illustrate the dominance of pragmatism. Over three-quarters of firms are expected to make a payment to one of the big parties over a two-parliament period. The pure ideological strategies are less popular than all pure pragmatic or interactive strategies. The interactive strategies do not exhibit a bias toward the left or the right. The sums of the interactive categories that lean toward the left or the right are almost exactly equal. The models predict a massive advantage for the government. If the Progressive Conservatives are in power there should be 3.78 times as many PC-only contributors as Liberal-only contributors. If the Liberals form the government, the equations predict 5.3 times as many Liberal-only contributors as PC-only contributors. Canadian firms react decisively and dispassionately to changes of power. Canadian business money speaks the language of pragmatism.

The Australian simulation (Table 5) illustrates a combination of pragmatic and ideological motivations. As in Canada, the contribution rate suggests that financing political parties is a normal part of business.⁷¹ However, the ranking of strategies between the two countries is very different. In Australia, the most likely reaction to a turnover from right to left is to pay to the right when in government but refuse to fund either party under the left. This is almost three times as likely as its left-leaning equivalent. The same goes for plumping for the right while it controls the government and hedging when the left comes to power; the probability of this is four times larger than the opposite pro-left strategy. Ideological purity is not, as it is in Canada, the rarest strategy. Cleaving to the right whether it is in government or opposition is the third most likely strategy; it is fifteen times more likely than sticking with the left. These strategies result in more subtle financial ramifications for governing parties and opposition parties.

The simulation predicts almost no change in the number of coalition-only donors after a governmental turnover; it should stay stable at about 10 percent. When the ALP controls the executive, however, the percentage of ALP-only contributors increases by 75 percent: from 2.1 percent to 3.6 percent. The inclusion of poll figures allows an even more vivid portrayal of how ideological bias and pragmatism interact in

⁷¹ The predicted Australian contribution rate is to any of the seven jurisdictions, while the Canadian equivalent is to the federal level only. Thus, the Canadian contribution rate is higher than Australia's. The German and Australian rates compare more straightforwardly as the German figures amalgamate and do not distinguish between contributions to the federal and state branches of parties.

Australian political finance. In an election year, if the Coalition is in opposition with only a 10 percent chance of winning the election, almost 4.5 percent of firms will continue to give only to the Coalition. If the Coalition's prospects reverse and polls give them a 90 percent chance of victory, the number of contributors to the Coalition is predicted to rise to 12.6 percent. If the Australian Labor Party finds itself in opposition with a one-in-ten chance of government in an election year, only a miserable 0.25 percent of firms will give to them alone. However, if the ALP seems almost certain to win with a 90 percent probability, the number of ALP-only contributors increases by a factor of twenty-four to 6.3 percent. This example suggests that Coalition-only contributors combine pragmatic and ideological motivations, but ALP-only contributors are almost entirely pragmatic. Australian businesses react to changes in government and likely changes in government, but they are clearly biased toward the coalition of the Liberal and National Parties. Nonetheless, if the Australian Labor Party is in power, Australian businesses will be prepared to fund it, or at least desist from funding its competitor. In Australia business money is bilingual: it speaks the languages of both pragmatism and ideology.

The initial contrast between Germany (Table 6) and the other two cases is stark. The vast majority of German companies do not involve themselves in party finance. The ideological category of consistent payments to the right is larger than any of the categories that could be interpreted as indicators of neutrality or left-wing bias. The highest probability relates to firms that contribute to the right under a right-wing government and do not contribute at all under the left. While this is reminiscent of the behavior of Australian firms, it is important to remember that it is on much smaller scale. These ideological contributions reflect the Christian Democrats' enduring "anti-left" identity⁷² and perhaps also a tradition established when ideological competition was much sharper and the risk of a major change in the business environment was imaginable.⁷³ A small number of German firms speak the language of ideology, but pragmatism can motivate them to refrain from expressing their preference for the right.

In addition to changes in the (expected) distribution of political power, the electoral schedule also has an implication for pragmatic firms. In Australia and Canada, the closeness of an election has a much larger effect on the hedging category than the other two contribution

⁷² Pridham 1977, 305; Pulzer 1995, 137; Smith 1982, 198, 202; Wood 2001, 266.

⁷³ Wiegrefe 2001; Lersch and Palmer 1999.

patterns. In other words, firms react rationally to increasing political uncertainty. Larger firms are more likely to adopt each of the contribution strategies in all equations. Moreover, as predicted, income is most strongly associated with hedging. By contrast, sectoral dummies are only intermittently influential. Firms from all sectors influence the choice of left or right in Australia and manufacturing firms are more likely to hedge. In Germany, financial firms are more likely to contribute to the right and the primary sector is more likely to hedge or give to the left. In Canada, the only significant result is that financial firms are more likely to hedge.

A varieties-of-capitalism account fits the contrast between liberal Australia and Canada and coordinated Germany. In the liberal market economies, most firms contribute to political parties because there is a pragmatic business case for doing so. In these systems, both major parties attract large numbers of contributions and are more likely to do so when in power. However, in coordinated economies such as Germany, firms rarely contribute to parties but when they do so they almost always give to the right. Nonetheless, there are major differences between Australia and Canada. Australian business expressed an ideological preference for the right, while in Canada big business did not favor either party. The party system is the obvious explanation for this difference. Australian parties compete on a left-right basis while Canadian parties exhibited little ideological polarization. This interpretation can be bolstered by intracase variation.

The Australian Labor Party's dash toward the market in the 1980s and 1990s represented a tremendous change in the ideological environment of Australian politics. The ALP introduced a disclosure law in 1984 and substantially strengthened it in 1992.⁷⁴ However, this era did not result in 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.⁷⁵ The ALP's new attitude toward business reached its most extreme in Western Australia, which was rocked by spectacular scandals in the late 1980s.⁷⁶ In other jurisdictions, the ALP developed 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. The narrowing of ideological competition in Australian

⁷⁴ Chaples 1994, 31.

⁷⁵ Gordon and Ceresa 1995.

⁷⁶ Wainwright 1992; Cohen 2007.

politics seems to have led to a reduction in the bias toward the right of business financing of political parties and to a related increase in pragmatism.

These conclusions dovetail with other differences in business political behavior between coordinated Germany and liberal Australian and Canada. Associations continue to dominate lobbying in Germany.⁷⁷ Indeed, as late as 2002, a practitioner reported that there was virtually no market for public affairs expertise in Germany.⁷⁸ In contrast, lobbying by individual firms has been an important, and generally legitimate, part of politics in Australia and Canada since the Second World War.⁷⁹ This lobbying is carried out by the public affairs units and senior management of large firms as well as by specialized consultants and law firms.⁸⁰

DISCRETE AND RECIPROCAL EXCHANGES

Pragmatism was the dominant motivation for business financing of parties in Canada and was an important motivation in Australia. In both countries, these payments were part of discrete and reciprocal exchanges. The idea of a discrete exchange tended to dominate journalistic thinking and media reporting on business financing of parties. The most obvious type of discrete exchange is bribery. Both of these relatively uncorrupt countries have had political finance scandals,⁸¹ a subset of which involved alleged or proven corruption. However, it is virtually universally assumed that such episodes were aberrations. In spite of their obvious news value, articles on corruption are relatively rare compared to articles with headlines about access for sale—also constructed as a discrete exchange by the media. These almost became a genre in the Australian and Canadian press and reported a range of secret and public fundraising events.

In Canada, fundraising events with ministers or members of parliament (MPs) could be relatively small gatherings, but annual dinners with party leaders often attracted thousands. While tickets to these events were available to individuals, businesses dominated by buying up whole tables for several thousands of dollars.⁸² Usually, the large dinners were preceded or succeeded by smaller receptions for bigger or more regular

⁷⁷ Ronit and Schneider 1998. Schneider 2006, 115–19.

⁷⁸ Behrens 2002, 175.

⁷⁹ Schneider 2006, 115.

⁸⁰ Rush 1998, 516–19; Warhurst 1998, 539–43.

⁸¹ Cohen 2007; MacDermid 2000; Tretbar 2010.

⁸² Clark and Mackie 2003.

contributors.⁸³ Smaller events could provide much more intimate access and were priced accordingly: a foursome on a golf outing with the Liberal Finance Minister Paul Martin cost C\$10,000; dinner with Prime Minister Chrétien was sold at the same price, even though on at least one occasion the special guest star failed to appear.⁸⁴ Dinners and other events were often held in secret even if associated donations were disclosed.⁸⁵ Throughout the 1980s, the Liberals and Progressive Conservatives held special events for the members of the Laurier Club and the 500 Club, respectively. Membership in these clubs was available to those contributing over a set, relatively low, amount. In 2003, \$1,000 was needed to qualify for the both clubs. Australian fundraising has relied on a remarkably similar mix of events.

Much of this fundraising is more coherently interpreted as a process of reciprocal rather than discrete exchange. It would have been impossible to provide real access to decision makers for the huge numbers of Canadian and Australian businesses that made financial contributions to parties. Both countries have Westminster regimes where power is very tightly focused on the cabinet and prime minister. Moreover, a direct exchange of cash for influence, or even potential influence, can be very costly for democratic parties. The access-for-sale interpretation of these exchanges does not easily fit with the rhetoric surrounding fundraising from business that emphasized ideological and social motivations for making contributions and attending functions. The problem lies in thinking of money and access as a discrete exchange; they are not.

Money and access were both parts of a symbiotic system of lobbying and political finance in which businesses and politicians developed mutually beneficial relationships over a period of time. These relationships developed and justified themselves to profit-seeking businesses and cash-hungry parties through reciprocal exchange. For example, annual leaders' dinners and other large fundraising events starring cabinet ministers are likely to have provided little or no access for businesses that invested in tickets. Real access consists of an often brief, but secret, one-on-one meeting or communication with a decision maker as well a real expectation that the pitch will be favorably considered. This sort of access is more likely to be provided through a broker such as a member of a minister's staff office, one of the party's "bagmen," an MP, or a lower-tier politician—all of whom not only realize that the firm

⁸³ Matas 1995; Ovenden 2000.

⁸⁴ Yaffe 2002.

⁸⁵ Mittelstaedt 1993; Alberts 1994.

is a regular and substantial political contributor, but may well remember a name and a face and have some understanding of the needs and problems of the firm. In other words, through the trust of her broker, the decision maker would need to be convinced that she and her party are involved in a stable and mutually beneficial reciprocal exchange. The centralization of the system meant that substantial fundraising was much easier if a cabinet minister was produced.

The parties' money men knew this and put a lot of energy into insisting that ministers attended fundraising events when on official business outside of the capital.⁸⁶ The really large firms expected that the solicitation of funds would be accompanied by a visit from one of a handful of senior fundraisers who were directly answerable to the party leader or prime minister and who could set up meetings with ministers.⁸⁷ Thus, businesses calculated that their money could be useful when, and if, the need arose. Even so, the contribution did not guarantee anything and the process was subject to the uncertainty typical of reciprocity. In a sense, Canadian Senator Leo Kolber, a Liberal fundraiser, was absolutely correct when he said that he "did not promise a bloody thing" when fundraising from businesses.⁸⁸ Similarly, New South Wales Premier Bob Carr said, "They'll be listened to by government but they'll know they get as many knock backs on policy requests as they get tick-offs."⁸⁹ These statements are consistent with the nature of a reciprocal exchange in which no clear terms are set. While nothing may have been overtly promised, the politicians omitted mentioning that something was expected in the future. Political contributions help develop a relatively diffuse obligation to reciprocate. Often the relationship and the money may have achieved nothing other than "the answer to a phone call—or a quicker answer to a phone call."⁹⁰

Once understood in terms of this wider context, other supposed anomalies regarding political donations become less puzzling. Large firms—ones that already have access—make payments to develop a sense of reciprocal obligation among the political elite beyond the objective social and economic importance of the enterprise. Many of the best-attended and expensive fundraising events provide little or no access to the decision maker, but they demonstrate that the political actors present may have direct access to the star politician giving the keynote

⁸⁶ For Canada, see Matas 1995. For Australia, see Clark and Glendinning 2001; Baker 2006.

⁸⁷ Stanbury 1993, 315.

⁸⁸ Stanbury 1993, 315.

⁸⁹ Hanna 2003.

⁹⁰ For Canada, see Allen 1989a; Curtis 1999. For Australia, see Birnbauer 2007.

speech. Firms that are aware of the utility of developing a relationship with a party, and especially with well-connected individuals within it, see a clear rationale for attending such events. Thus, the donations constitute an investment in a small but real increase in the probability of successful lobbying. Since journalists do not have an incentive to muse on the subtle reciprocity of the system of party-firm relations, discrete exchanges are much more likely to make the headlines. The nature of the situation in which Australian and Canadian firms and parties found themselves suggests a greater proportion of reciprocal, and a lesser proportion of discrete, exchanges than the newspaper articles suggest.

It is likely that the relative prevalence of the two types of exchanges differed in these two pragmatic countries. The simulations do not directly measure exchange processes, but they can provide some hints. Hedging, and especially consistent hedging, should be associated with a long-term expectation of reciprocity. Models five and six predict that on average just less than one-third of Canadian contributors should hedge, but only 14 percent of Australian contributors should do likewise. The figures suggest that 13 percent of Canadian contributors should hedge consistently, but the Australian probability is less than 0.01 percent. Contribution size also provides some evidence of the relative importance of discrete and reciprocal exchanges. In relation to firm income, the mean Australian payment is almost twice the size of its Canadian counterpart. As a proportion of party income, the difference is even greater: Australian payments are over five times as large. These bigger contributions are consistent with a greater frequency of costlier discrete exchanges in Australia. Newspaper articles also give the impression that discrete exchanges were more common in Australia. In particular, the terms of exchange seem to have been more explicit there than in Canada. It was quite common for the Australian parties to auction access in the form of a private meal with a minister or premier.⁹¹ Australian parties still offer a variety of annual packages that extend different, and very clearly specified, levels of access to member businesses:

A glossy ALP brochure is offering five levels of "business dialogue," starting at \$100,000 for a foundation partner and working down to \$10,000 for an executive partner. For a \$100,000 donation to ALP coffers, a partner would receive a private boardroom lunch with senior [New South Wales Premier Morris] Lemma government ministers, five places at a federal MPs' dinner, 10 invitations to the Premier's Christmas drinks, a VIP table at the budget dinner and favored treatment at ALP functions.⁹²

⁹¹ Verrender 2001; Clennell 2007a; Gibson and McClymont 2008.

⁹² Mitchell 2006; Clennell 2007b.

The nature of the data sets is surely an important explanation for these differences. The Australian data contains contributions from seven jurisdictions with populations ranging from only half a million in Tasmania to twenty-one million for the Australian Commonwealth itself. All Canadian data relates to the federal level, and thus to a country of thirty-three million. Politicians in larger jurisdictions are subject to much greater media scrutiny than those in small jurisdictions and therefore risk much greater publicity costs from discrete exchanges. Moreover, politicians in larger jurisdictions can raise funds from a much larger pool of contributors and are under less pressure to provide large and immediate benefits. Finally, the smaller scale of the events themselves made it easier to provide real access. For example, almost nothing on the scale of Canadian leadership dinners has taken place in Australia.⁹³

It is also possible that party systems help explain the different emphasis on discrete and reciprocal exchanges. In Canada, both parties had long-established relationships with business, and on that basis firms could expect reciprocity. By contrast, the Australian Labor Party's drive to raise business funds dated from only a decade before the beginning of the data set.⁹⁴ The ALP could not rely on the slow and subtle reciprocity of a traditional business party. It was often tempted to offer relatively explicit discrete exchanges of access for cash to secure business funding. This may have caused a very special "contagion from the left," which meant the right could no longer take businesses for granted and also had to offer them special memberships and seemingly clear access opportunities.⁹⁵ This is of course part of the same process that likely led to a shift from ideological to pragmatic giving.

In contrast to the mountain of access-related articles in the Australian and Canadian press, it is very difficult to find any pieces alleging systematic exchanges between contributing businesses and parties in Germany. Indeed, there seems to be only one clear example of the sale of access during the sample period and afterward. The North Rhine Westphalian Christian Democrats sold access to regional Prime Minister Dr. Jürgen Rüttgers at the party's annual congress. For €5,000, a firm could get a small display stand and a couple of tickets for the evening event. Sixteen-thousand euros bought the "Partner Package III," which included the placement of a representative of the firm at one of the top VIP tables and the opportunity to meet the prime minister and con-

⁹³ Gordon and Carty 2008.

⁹⁴ Carney 1994.

⁹⁵ Hartcher 1992; Hewett 2003; Koutsoukis and Schubert 2004.

duct a private conversation with him. A public relations firm organized the scheme, allegedly without the knowledge of the prime minister; the prime minister ultimately fired the secretary-general of the Party. The access payments were classed as “sponsorship,” rather than “donations,” and did not have to be reported. There was a consensus that the episode was very unusual. A journalist opined that “[T]he “Rent-a-Rüttgers” system went far beyond what is usual with other parties,”⁹⁶ while another reported that, “Bundestag President Wolfgang Thierse (SPD) [could] not remember having heard before of similar cases.”⁹⁷

CONCLUSIONS

Business money does talk politics. In pragmatic Australia and Canada, it says, softly and subtly, but insistently, that, in reciprocation for small but certain financial benefits, contributing businesses expect special consideration of their lobbying efforts. This expectation is relatively firmly embedded in a long-established and well-known, if far from predictable, system of party-firm relations. Special consideration is delivered through personal and organizational relationships that would not have existed or would have been of inferior quality had financial contributions not been made. In Germany, there is no such systematic integration of political finance and party-firm relations. The small number of payments made tend 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 economy between liberal Australia and Canada and coordinated Germany. Collective representation is embedded in the strategy of German firms and complements a whole range of economic, social, and political institutions. Thus, in Germany it is not necessary for firms to pursue their interests by using contributions to help develop firm-specific relationships with political parties. In Australia and Canada, firms employ more individualistic and straightforward competitive strategies, and, consequently, collective representation tends to be weak. Political contributions to parties are a way of pursuing business interests in the political arena. In Canada, the two centrist parties share a fundamentally pro-business position, posing very little policy risk to the overall business sector. Australian businesses exhibit a mix of pragmatism and ideol-

⁹⁶ Schmidt and Wyputta 2010.

⁹⁷ Appenzeller, Funk, Sirleschtov, and Zurheide 2010.

ogy when financing parties. Historically, the Liberals were the party of business and the market and the Australian Labor Party kept its distance from business while maintaining a good relationship with labor unions.⁹⁸ There is still a bias toward 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.

These differences are likely to have had major consequences. Germany's low contribution rate means it is unlikely that businesses have influenced the outcome of party competition. The logic of pragmatism is to reflect, rather than to try to modify, existing distributions of political support. In pragmatic Canada, business money tended to treat the principal competitors equally but disadvantaged parties seeking to break the duopoly of the Liberals and Progressive Conservatives. The Australian combination of ideological contributions and a relatively high contribution rate means that businesses systematically bias Australian politics toward 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 are interested payments. An opportunity to make a pitch, or a hearing that is slightly more sympathetic, must mean that decisions are frequently affected. In total, these decisions should have skewed the system toward private goods and away from public goods. Thus, there are good reasons to believe that variations in motivation across the three cases have had substantial political and economic ramifications.

This pioneering cross-national study of firm behavior in political finance owes a debt to a distinguished research program in American politics. As mentioned above, the relatively singular nature of the American political system and its highly singular regulation of political finance make it a difficult case for comparative analysis in this subject. Nonetheless, the American case seems to fit the argument of this article. It is the archetypical liberal market economy⁹⁹ with a left-right divide, albeit not on the basis of disciplined parliamentary parties, and executive elections in which winner takes all. Political contributions by large firms are common and while pragmatism seems to dominate, ideological strategies also exist.¹⁰⁰ Moreover, the benefits of pragmatism are best described in the subtle terms of reciprocal exchange. To a great

⁹⁸ McEachern 1992a; McEachern 1992b.

⁹⁹ Hall and Soskice 2001, 27–33.

¹⁰⁰ Clawson, Neustadt, and Weller 1998, 139–66.

extent, indeed, the techniques, technology, and culture of party political fundraising have diffused from the U.S. to Canada and Australia.¹⁰¹ A once good, but now outdated, reason for the insularity of the American literature was that its transparent disclosure regime was relatively unique.¹⁰² However, there is now a large number of countries that 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 article. Therefore, the arguments presented here have the potential for wider comparative testing.

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¹⁰¹ Clark 1986; Amr and Lisowski 2001, 270; Baker 2006; Boatright 2009, 23, 32, 29.

¹⁰² Sorauf 1992, 218.

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