

# Money, Efforts, and Votes: The Non-Emergence of a Political Party

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## Abstract

The presence of functioning parties greatly enhances the effectiveness of a political system. In this paper, we analyze how sources of party finance may affect the structure of individual parties and the political system as a whole. If party's money come from a single source, then the party leadership is very strong relative to rank-and-file members and local leaders. Hence, there will be more loyalty and less diversity inside the party, the situation usually preferred by the current leadership, but detrimental to the party's long-term prospects. The existence of grassroots organizations mitigates these effects, making party leaders less willing to sacrifice the interests of large constituencies in return for campaign contributions from special interests. As a result of this, in an economy high wealth and income inequality and significant discretionary authority of the state over business affairs, one might expect a larger number of small, leader-dependent parties to form. We use this model to explain non-emergence of mass political parties in Russia.

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# 1 Introduction

On December 20th, 2007 Russians went to the polls for the fifth parliamentary election of the post-communist era. The results were completely predictable, with the pro-government United Russia party re-elected in a massive victory with over 64% of the vote.<sup>1</sup> Its nearest competitor, the Communist Party of the Russian Federation, received only 11.6% of the vote. By contrast, the October, 2007 Polish parliamentary elections featured suspense up until the last minute and a controversial government voted out of office, seemingly punished by the electorate in the best spirit of representative democracy.<sup>2</sup> The question that political scientists will be wrestling with for many years to come is why? Why is democracy apparently well institutionalized in Poland and other Central European countries, while it is at best in some sort of sustained coma on life support in Russia? Numerous answers have already been proposed, including Russia's cultural aversion to democracy (Pipes 2004), institutional choices early in the transition (Fish 2000, 2005), the preeminent role of oil in Russia's economy (Fish 2005), and the democracy promoting effects of the European Union (Vachudova 2005). In this paper, we highlight another potential explanation for Russia's failed democratic experiment rooted in the particular political-economy of Russia itself.<sup>3</sup> More specifically, we present a formal model that links Russia's economic development in the 1990s to the types of political parties that emerged in Russia and ultimately failed to constrain the growth of what is by now near autocratic power at the center of the executive.<sup>4</sup>

The novel link between economic and political developments that we propose and formalize is through the vehicle of party finance. We demonstrate how sources of party finance may affect the structure of individual parties and the political system as whole. If a party's money comes from a single source, then the party leadership is very strong relative to rank-and-file members and local leaders. Hence, there will be more loyalty and less diversity inside the party, a situation usually preferred by the current leadership, but detrimental to the party's long-term prospects.<sup>5</sup>

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<sup>1</sup>[http://www.cikrf.ru/eng/elect\\_duma/results/index.jsp](http://www.cikrf.ru/eng/elect_duma/results/index.jsp). For pre-election polls, see <http://www.levada.ru/reitingi2007.html>.

<sup>2</sup>[http://www.pkw.gov.pl/gallery/10/71/37/107137/OBIESZCZENIE.PKW\\_DO\\_SEJMU.pdf](http://www.pkw.gov.pl/gallery/10/71/37/107137/OBIESZCZENIE.PKW_DO_SEJMU.pdf)

<sup>3</sup>In focusing on economic determinants of political outcomes, we come closest to Fish (2005)'s focus on the role of raw materials, and in particular oil, on the downfall of Russian democracy.

<sup>4</sup>In recent months, speculation has grown regarding whether this power will remain in the office of the Russian president, now held by Dmitry Medvedev, or in the person Vladimir Putin, now the Russian Prime Minister. Nevertheless, this debate is occurring on a dimension that completely removed from the development of Russia's political parties, which remain extremely weak.

<sup>5</sup>Gallaher (1988) concludes that extensive centralization of a party leads to reduced efforts at the local level. Wellhofer and Hennesy (1974) argue that a high degree of party centralization reduces chances for promotion of local leaders, and, by implication, incentives to exert efforts at the local level.

The existence of grass-roots organizations mitigates these effects, making party leaders less willing to sacrifice the interests of large constituencies in return for campaign contributions from special interests. As a result of this, in a multi-party environment, one might expect a larger number of small, weak, and leader-dependent parties to form when funding is limited to a single source. The source of party funding, in turn, depends on the economic structure of the country in question. The attraction of the model – especially for the study of countries undergoing simultaneous economic and political transitions – is that it explicitly links economic conditions with political developments.

In doing so, we develop the first formal model of the link between economic structure, party finance, and the evolution of political parties. We believe this model can play an important role in improving our understanding of the political economy of transitions generally, as well as in particular shedding light on the development of the transition in Russia. Indeed, the model provides a theoretical link between the two most important stylized facts of the Russian transition experience: (1) the existence of "partial reform" that created tremendous opportunities for rent seeking from meddling in politics (Hellman 1993, Hoff and Stiglitz 2004) and ultimately led to the emergence of great concentrations of wealth and the now famous Russian oligarchs (Guriev and Rachinsky 2005, Klebnikov 2000, Reddaway 2001); and (2) the failure of effective political parties to emerge in Russia. Our model provides a direct link between these two distinguishing characteristics of Russia's transition. Moreover, it also provides a useful temporal insight as to why Russia's emerging party system may have originally (here, think 1993 or 1995) looked fairly similar to other immature party systems in Central Europe, but, after 15 years of oligarchic capitalism combined with an increasingly powerful and unrestrained state, these parties have been revealed to be weak, powerless, and – with the exception of the ruling party – losing their supporters. For that matter, even though United Russia was able to attract a large number of votes in recent elections, no one would confuse this with a genuinely popular party; had Putin announced the formation of a new party before the 2007 elections, United Russia's support would likely have crumbled as fast as any of the others. The model also leaves us with an important policy prescription for new democracies: ensuring that industrial resources are not too concentrated in the hands of a small number of people turns out not only to be an economic concern, but a potent political one as well.

## 1.1 Political Parties

The importance of political parties for the successful functioning of democracy has long been emphasized by early party-builders such as Burke and Madison and by political scientists ever

since (Schattschneider 1942, Duverger 1954, Hofstadter 1969, Katz 1980, Riker 1982, Lipset 2000).<sup>6</sup> Most notably of late, Aldrich (1995) argues that a democracy cannot be workable save in terms of political parties. As Aldrich (1995, see especially ch.3) demonstrates, political parties in the United States emerged from scratch in the late 18th century and reached a certain level of maturity in less than a decade. In Russia, the formation of political parties was not legalized until 1991. Since that date, though, most attempts to create long-lasting political parties that could play a significant role both at the federal and local level have failed (Colton and McFaul 2003, Remington 2001). For example, Golosov (2004) begins his study of Russian regional party politics by declaring "the purpose of the book is to examine the systematic disincentives to party formation in the regions of Russia" (Golosov, 2004). Coming to a similar conclusion regarding the role of parties at the national level in Russia, Hale (2006) aptly titles his book *Why Not Parties?*<sup>7</sup>

Interestingly, despite the fact that money plays a critical role in Russian elections (Colton and McFaul, 2003, Triesman, 1998), as well in many elections in weakly institutionalized environments, we are not aware of any theoretical investigations of the matter. One clear limitation is the absence of any kind of hard data on campaign finance: Colton and McFaul (2003), Treisman (1998), and the secondary sources cited therein all rely primarily on interviews with party activists and political actors. To give an example of the magnitude of the problem, the official 1999 campaign expenditures for the Yabloko party reported by the Central Electoral Commission were \$1.5 million. Estimates of the actual level of spending ranged from \$7 million to as high as \$25 million (Colton and McFaul, 2003). The fact that hard data is so completely unreliable in this instance makes formal theory a particularly useful and attractive tool for understanding dynamics that we may never be able to observe directly.

In our theory, we view a party as an endogenous institution, created and shaped by ambitious office-seekers (Schlesinger, 1980, Aldrich, 1995). For the internal structure of the party, we use the framework suggested by Aghion and Tirole (1997), although our utility functions are of a different nature. In the model, the incentives for a potential local candidate to join a party stems from the possibility of improving his or her ability to attract voters, and, ultimately, to win elections. There are basically two opposing motives that affect both leadership and local candidate behavior in the model: the 'electoral motive', which forces office-seekers to converge to the median voter position, and the 'money' motive, which forces the party leadership to seek political positions where both

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<sup>6</sup>There is an intellectual tradition to emphasize the importance of parties for non-democracies as well. It also roots back to practical party-builders such as Lenin and Trotsky and has been actively discussed since them (e.g. Dominguez, 2002, Wintrobe, 1998).

<sup>7</sup>For more on the weakness of Russian political parties, see as well Colton 2004, Hale 2003, McFaul, 2001, and Stoner-Weiss, 2001.

political and economic competition is minimal.<sup>8</sup>

The rest of the paper is organized as follows. Section ?? introduces the basic model, while Section ?? contains the equilibrium analysis. In Section ??, we utilize implications of the formal model to analyze the non-emergence of political parties in Russia. Section ?? concludes.

## 2 Formal Theory

The formal model combines classic elements from several sources. In particular, it employs the Aghion and Tirole (1997) idea about the allocation of authority within an organization, campaign contribution insights of Grossman and Helpman (1994, 1996) and Baron (1994), and a standard industrial organization model of oligopolistic competition (e.g. Varian, 1994).

### 2.1 Setup

There are two parties,  $P \in \{A, B\}$ , that participate in elections. Each party consists of the party leadership and a continuum of local candidates, each of which competes in his or her own district. Each party's leadership decides how to better position their party to win as many single-district elections as possible and also to collect campaign contributions. Parties contest elections by taking single-dimension policy positions.

In addition to the single member districts, there is also one single 'national' district, where votes are allocated depending on the positions taken by parties but also on the amount of campaign spending by both parties (as in Grossman and Helpman, 1996). The relative weight of local (SMD) districts is  $\beta$ , and of the 'national district' is  $1 - \beta$ . At the national level, we assume there are  $1 - \alpha$  'informed voters' who make their own choices about which parties to support, but that the votes of the remaining  $\alpha$  voters are allocated proportionally based on campaign spending (see Grossman and Helpman, 1996, for an extensive discussion of the plausibility of this framework). Thus, we assume that each party's ultimate goal is to win as much seats in the parliament as possible.

$$s_P = \beta[SMD^P] + (1 - \beta) \left( (1 - \alpha) \int_{n \in N} F(u^n(x^P) - u^n(x^{-P})) dn + \alpha h(C^P - C^{-P}) \right),$$

where  $SMD^P$  is the number of seats received in single-member districts and is determined as follows.

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<sup>8</sup>In the real world, there are of course many other motives that might affect the choice of a position by a political party, such as ideological preferences of either the individual candidate or the party as a whole or the heterogeneity of districts across the country (e.g., Eyster and Kittensmeir 2004). For general reviews of the literature on political parties, see Osborne (1995) and Reiter (2006).

A local candidate  $l$  of party  $P$  may exert efforts  $e_l$  at the cost of  $c(e_l) = \frac{ce_l^2}{2}$  to make sure that voters know her policy position. If the level of effort is  $e_l$ , then she makes her policy position known to the electorate with probability  $e_l$ .

A local candidate is interested solely in her own election; the party leadership wants both their local candidates to be elected and to receive ‘national’ votes. The local candidate’s utility function is as follows.

$$U_l(e, x_l, x^P) = v \Pr(l \text{ wins} | x_l, x^P) - c(e),$$

We assume that the party leadership is risk-neutral, while the local candidate is infinitely risk averse; this assumption allows us to rule out any incentives that can be made possible by direct monetary transfers between the central leadership and local candidates.

The authority to choose the party’s policy position can be allocated in two ways. One possibility is that the party leadership chooses the position. Another possibility is that this authority is delegated to local party organizations. Below, we analyze what happens in these cases separately using elements of the Aghion and Tirole (1997) model that emphasizes the distinction between formal and real authority in organizations. The decision is made by the player who has formal authority - either the party leadership or the local candidate; however, this is conditional upon the event that this player’s efforts to get voters informed about the party position are successful. If the effort of the player that has formal authority fails, there is still a possibility that the other player’s efforts can be successful. This is modeled as follows.

Formally, if the party is centralized and the amount of contributions received is  $C^P$ , the position that local candidate  $l$  actually takes is  $x^P$  with probability  $f = f(C^P)$  and  $x_l$ , which is the choice of candidate  $l$  herself, with probability  $e_l(1 - f)$ .  $f(\cdot)$  is an increasing function of campaign contributions. With probability  $(1 - e_l)(1 - f)$ , candidate  $l$  completely fails to inform voters about her position and does not get any votes in the elections. However, this is not known until after the election day, and so does not affect the other candidate’s behavior. In a decentralized party  $P$ , the position that local candidate  $l$  actually takes is  $x_l$  with probability  $e_l$  and  $x^P$  with probability  $(1 - e_l)f$ . Again, with probability  $(1 - e_l)(1 - f)$ , candidate  $l$  does not get any votes in the elections. In a decentralized party, the ‘party position’  $x^P$  is the aggregate of local candidate’s positions,  $x^P = \int_0^1 x_l dH(l)$ .

In the model, campaign contributions come from special interests that have preferences over the decision space. For the sake of clarity, we stick to a simple terminology of ‘businesses interested in certain market conditions’, although there is nothing specific in the model that rules out such special interests as labor unions or pro-choice movements. With this caveat, there are  $N$  businesses

that produce the same good and are located uniformly across the interval  $[0, 1]$ , i.e. in points  $\{0, \frac{1}{N-1}, \dots, 1\}$ ; the decision that needs to be made is where a public transportation center (e.g., an airport) should be located. Each business decides on the amount of the good to be produced, given its own costs, which in turn depend on the location of the public transportation center and other firms' output. The inverse demand function is  $p\left(\sum_{l=1}^N q_l\right) = a - b \sum_{l=1}^N q_l$ . If the distance between business  $l$  and the public transportation center is  $d$ , then the cost  $c_l = dc$ . The market competition results in different profits for firms depending on the policy choice (the transportation center's location)  $x$ , and thus affects businesses' willingness to support parties and candidates.

Special interests are concerned with the policy positions that parties will pursue after elections. In modeling the interaction of special interests with political parties we follow Grossman and Helpman (1996). The objective function for group  $j$  is as follows.

$$V_j = \varphi(s)\pi_j(x^A) + (1 - \varphi(s))\pi_j(x^B) - C_j^A - C_j^B,$$

where  $C_j^A$  and  $C_j^B$  are group  $j$ 's contribution to parties  $A$  and  $B$ , respectively.

In each district  $\gamma \in [0, 1]$ , the distribution of voters is such that the median-voter position is distributed uniformly on  $[\gamma - \frac{1}{2}, \gamma + \frac{1}{2}]$ . This can be easily derived from the 'first principles' (i.e. voters' individual preferences) as it is done in Lindbeck and Weibull (1987) and Grossman and Helpman (1994); we avoid this to economize on cumbersome notation.

The timing of events is as follows.

1. Each special interest group  $j$  independently and simultaneously announces the contribution schedules  $C_j^A(x^A), C_j^B(x^A)$ .
2. Local candidates of both parties choose policy positions in their districts,  $(x_{l\gamma}^A, x_{l\gamma}^B)_{l \in [0,1], \gamma \in [0,1]}$ , and determine the level of campaign efforts  $e_l$ .
3. If parties are centralized, parties  $A$  and  $B$  choose their policy positions  $x^A, x^B$ . Local candidates choose their policy positions and their level of effort. In a decentralized party, each local candidate takes a policy position; the party position is the aggregate of the local candidates' positions.
4. Elections take place, and payoffs are received.

We focus on a subgame-perfect Nash equilibria; in such an equilibrium, players that move early correctly foresee the equilibrium responses of those who choose their actions subsequently. We assume that both special interest groups and political parties keep their promises after the elections, and in the campaign contribution game we confine ourselves to 'truthfull equilibrium'. (Grossman and Helpman, 1994, 1996 contain an extensive discussion of both these assumptions.)

### 3 Analysis

We start by concentrating on the problems of one party  $P$  and its candidates, assuming that the position of the other party is fixed. Let  $x_i^*$  and  $x^{P*}$  be the optimal choice of local candidate  $l^P$  and the party principal, respectively:

$$\begin{aligned} x_i^* &= \arg \max_{x_i} \Pr(l^P \text{ wins} | x_i^P, x^P, x_i^{-P}, x^{-P}) \\ x^{P*} &= \arg \max_{x^P} \left\{ \beta [SMD^P] + (1 - \beta) \left( (1 - \alpha) \int_{n \in N} F(u^n(x^P) - u^n(x^{-P})) dn + \alpha h(C^P - C^{-P}) \right) \right\} \end{aligned}$$

In district  $\gamma \in [0, 1]$ , the median voter is distributed uniformly on  $[\gamma - \frac{1}{2}, \gamma + \frac{1}{2}]$ . If the expected position of the local opponent is  $Ex_i^{*-P} \in [\gamma, \gamma + \frac{1}{2}]$ , local candidate  $l^P$  chooses her optimal position as  $x_i^{*P} = x_i^{*-P}$ , and  $\Pr(l^P \text{ wins} | x_i^*) = Ex_i^{*-P} - \gamma + \frac{1}{2}$ . If the position of candidate  $l^P$  is determined by the central authority of party  $P$ ,  $\Pr(l \text{ wins} | x^P) = \frac{Ex_i^{*-P} + x^P}{2} - \gamma + \frac{1}{2}$ .

If contribution schedules are such that taking a more extreme position brings higher campaign contributions (as indeed happens in equilibrium) than the votes-maximizing position  $\arg \max_x P(l^P \text{ wins} | x)$ , and the leadership's optimal choice  $x^{P*}$  is more extreme, on average, than  $x_i^{*P}$ . A standard revealed-preferences argument proves that

$$P(l^P \text{ wins} | x_i^{*P}) \geq P(l^P \text{ wins} | x^P).$$

We start with an analysis of how the equilibrium efforts of party leaders and local candidates of one party depend on the allocation of authority inside the party. In a centralized party, the leadership decides on the position that both local candidates and the party at the national district take if the leadership's efforts to advertise are successful. Otherwise, the party position is determined by the local candidates. In contrast, in a decentralized party, the leadership preferences are relevant only in the case when local candidates' efforts fail.

In a centralized party, the decision problem for a local candidate is as follows:

$$\max_e \left\{ f \Pr(l^P \text{ wins} | x^P) + (1 - f)e \Pr(l^P \text{ wins} | x_i^{*P}) - c_L(e) \right\}.$$

The optimal level of efforts is determined by

$$e_i^{C*} = \frac{1 - f}{c} \Pr(l^P \text{ wins} | x_i^{*P}).$$

The first comparative statics is very natural: the candidate's own efforts are increasing in her probability of winning on her own ( $\Pr(l^P \text{ wins} | x_i^{*P})$ ), decreasing in the cost of effort, and decreasing in the level of influence of the party leadership,  $f$ . As  $f$  is increasing in  $C^P$ , money collected from special interests crowds out effort at the local level.

Assume now that whenever the local candidate is successful in promoting her position, she makes the decision regardless of what the national leadership suggests. Thus, in a decentralized party, the decision problem for local candidate  $l$  is as follows:

$$\max_e \{e \Pr(l^P \text{ wins}|x_l^{*P}) + (1-e)f \Pr(l^P \text{ wins}|x^P) - c_L(e)\}$$

For the local candidate:

$$e_l^{D*} = \frac{1}{c} (\Pr(l^P \text{ wins}|x_l^*) - f \Pr(l^P \text{ wins}|x^P)).$$

The key determinant of effort on the part of local candidates is the difference between the prospects of the candidate if she chooses an optimal position on her own and the position determined by the national leadership.

(i) In both centralized and decentralized party structures, the equilibrium effort of local candidates is low when the central authority is strong, costs of local efforts are high, and the probability of winning the election on their own is low.

(ii) For any local district  $l$ , the level of efforts of the candidate is higher in a decentralized party than in a centralized one:

$$e_l^{C*} < e_l^{D*} = \Pr(l^P \text{ wins}|x_l^{*P}) - f \Pr(l^P \text{ wins}|x^P).$$

In equilibrium, local candidates in a decentralized party win more often than local candidates in a centralized party.

The above analysis is based on the assumption that  $x^P$  and  $C^P$ ,  $P \in \{A, B\}$  is fixed. Now we turn to the special-interests' incentives to provide campaign funds. The decision problem of a firm in the market is as follows.

$$\max_q \left\{ p \left( \sum_{l=1}^N q_l \right) - c_l q_l \right\}.$$

Solving for a market (oligopolistic) equilibrium, one obtains

$$\pi_l^*(x) = \frac{1}{b(N+1)^2} \left( a + \sum_{j=1}^N c_j(x) - (N+1)c_l(x) \right), \quad (1)$$

where  $x \in \{0, \frac{1}{N-1}, \dots, 1\}$  is the location of the plant. The above formula shows firm  $l$ 's profit if the policy choice is  $x$  and thus the firm's willingness to contribute to political campaign.

(i) Campaign contributions increase with the gap between parties' positions and are maximized once  $x_A^* = 0$  and  $x_B^* = 1$ .

(ii) The total sum of campaign contributions to a party decreases with market competition (larger  $N$ ).

Of all the firms in the market, the firms that are located in the corners of the decision space are the ones that benefit the most from their most preferred policy choices. The reason for this is simply that the corner firms face less competition than the firms located around the center of the decision space. Nevertheless, this straightforward observation allows us to illustrate an important point. Whatever the decision space, the policies that potentially bring maximum campaign contributions for competing politicians are the ones that are ‘extreme’ relative to the center of the policy space. They are extreme from the special interests’ standpoint, since providing a higher political rent for a favored interest necessarily assumes significant restrictions on the others.

Now, we are ready to formulate the existence result.

There exists a Sub-Game Perfect Nash equilibrium of the whole game, in which

(i) each campaign contribution schedule by special interest  $j$  maximizes

$$V_j = \varphi(s)\pi_j(x^A) + (1 - \varphi(s))\pi_j(x^B) - C_j^A - C_j^B.$$

Campaign contribution schedules are ‘truthfull’ (Bernheim and Whinston, 1988, Grossman and Helpman, 1996).

(ii) each local candidate  $l$  position maximizes  $x_l^* = \arg \max_{x_l} \Pr(l^P \text{ wins} | x_l^P, x^P, x_l^{-P}, x^{-P})$ .

(iii) each party  $P$  position (if party  $P$  is centralized) maximizes

$$s_P = \beta[SMD^P] + (1 - \beta) \left( (1 - \alpha) \int_{n \in N} F(u^n(x^P) - u^n(x^{-P})) dn + \alpha h(C^P - C^{-P}) \right).$$

If party  $P$  is decentralized, then party position  $x^{*P} = \int_{\gamma \in [0,1]} x_l^{*P} dl$ .

(iv) local candidates efforts are described by  $e_l^{C*} = \frac{1-f}{c} \Pr(l^P \text{ wins} | x_l^{*P})$   
 $e_l^{D*} = \frac{1}{c} (\Pr(l^P \text{ wins} | x_l^*) - f \Pr(l^P \text{ wins} | x^P))$

The equilibrium described above is unique in terms of utility that players get.

In a Sub-Game Perfect Nash equilibrium, the lower the market competition (fewer firms, lower costs, higher profits, higher demand), the higher campaign contributions are, the more extreme party positions are, and the lower local candidate effort is.

Once the existence and basic features of the equilibria are established, we can combine all of the above results to derive the following implication. The more concentrated the industrial structure (and therefore the lower the level of competition), the more the party leadership will emphasize raising money from special interests. To raise this money, they have to take more extreme (farther from the center) policy positions. This in turn decreases the equilibrium chances of local candidates, which in turn reduces their effort, and, ultimately, hurts the party.

## 4 Russian Evidence

In this section, we examine the extent to which the development of political parties in Russia is consistent with the model put forward in the previous section. In order to conclude that the model is indeed consistent with the Russian example, we would want to show the following: (1) that economic resources in Russia were concentrated in a small number of hands (2) that the financing of political parties wound up falling to a small number of economically well-connected individuals, and (3) that Russia's political parties turned out to be weak and overly personalistic. This would of course not in any way "test" the model – to do so would require at the very least evidence across multiple cases – but it would be a first step in demonstrating the value of the model for understanding real world political developments.

Of the first criteria, there can at this point be no doubt, and we refer readers to the now voluminous literature on Russian economic development in the post-communist era (e.g., Gehlbach forthcoming, Guriev and Rachinsky 2005, Hoff and Stiglitz 2004, Reddway 2001, Klebnikov 2000).

Moving to the financing of elections and characteristics of political parties, some preliminary background information is in order. Since the collapse of the Soviet Union, five parliamentary elections have been held for the lower chamber of the parliament, the State Duma: in 1993, 1995, 1999, 2003 and 2007. The first four of these featured a mixed electoral system with 225 seats allocated by proportional representation, and 225 seats allocated in single-mandate districts.<sup>9</sup> Moser (2001) notes that this splits the Russian parliamentary elections into two different campaigns, with national parties competing for PR seats while paying very little attention to SMD seats. In theory, the combination of proportional and single-mandate districts makes party affiliation especially attractive for local politicians, since they can benefit from the campaign the party runs at the central level.<sup>10</sup>

In 1995, Russia had what looked like rudimentary stirrings of robust political competition. In a regularly scheduled election, numerous parties competed for office, the campaign was a fairly vibrant affair, the party most closely associated with the president was severely punished by the electorate, and opposition forces were not only present in but actually dominated the Duma following the election.<sup>11</sup> Voters apparently made fairly rational decisions about which parties to support (Brader

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<sup>9</sup>For the most recent election, Russia adopted a fully proportional system with a significantly high threshold of 7% for inclusion in the Duma.

<sup>10</sup>Other scholars argue that Russian politicians have tended to disassociate themselves from parties (see Hale, 1999, for a discussion).

<sup>11</sup>For a concise summary of the 1995 Russian parliamentary election, see Tucker 2006, ch.4, as well as the many sources he cites in footnote 48.

and Tucker 2001, Meirowitz and Tucker 2007), and economic voting patterns were consistent with those found in other developing democracies (Colton 1996, 2000, Tucker 2006). By 2007, however, the situation had of course changed dramatically. There was no uncertainty over election outcomes, the campaign was a lackadaisical affair, the ruling party trounced all others, and the opposition was reduced to an even more trivial role in the parliament. Part of the reason for this was what McFaul (2007) calls a systematic strategy of "deinstitutionalization" on the part of the Putin administration to reduce the power of any institutions capable of challenging the presidential administration, which included, but was not limited to, political parties.

But failures on the part of Russian political parties to institutionalize themselves predate the Putin era. Moser (2001, p.12) notes that "Russian parties are constantly changing their names, personnel, and platforms - as well as experiencing dramatic changes of fortunes at the ballot box." Of the eight parties that surpassed the 5% threshold necessary to receive PR seats in the 1993 Russian Duma elections, only three of managed to again surpass the threshold in 1995 and 1999; in 2003 and 2007 it was down to only two of the original eight parties<sup>12</sup> One of these is the Communist Party of the Russian Federation (KPRF), built on the remains of the all-powerful Communist Party of the Soviet Union. The second is the ironically named Liberal Democratic Party of Russia, the party of the outlandish nationalist Vladimir Zhirinovskiy, which has not elected more than one candidate in a single-member district in any elections since 1993. Reflecting primarily on the Yeltsin years, Remington (2001) observed that "a decade after free electoral mobilization began, nearly all of Russia's political parties remain fluid, personalistic, and Moscow-centered." Indeed, numerous scholarly works published before Putin came to power evinced a healthy degree of scepticism about the strength of Russian political parties (e.g., Colton, 1998, Hough, 1998, Robinson, 1998, White, Rose and McAlister, 1997).<sup>13</sup> A nice manifestation of that weakness is identified by Moraski (2005) who analyzed party efforts in Russia to register their local branches in Russian regions prior to the 2003 Duma elections. He concluded that there was very little evidence that a party's registration in a particular district affected the proportion of votes it got in the national district; this is another manifestation of weakness of the party system.

So if we make the two relatively non-controversial claims that economic wealth in Russia – especially in the 1990s – was centralized in a small number of hands and that Russian political

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<sup>12</sup>The number of parties that achieved any representation in the Duma was larger, since some of those parties that failed to surpass the 5% threshold did succeed in having some of their elected from single member districts.

<sup>13</sup>Scholars focusing on the attitudes of Russian citizens, however, have noted the development of partisanship among the Russian electorate especially in the mid-1990s (Brader and Tucker 2001, Miller and Klobucar 2000; Whitefield and Evans 1999, Hale 1999). This does not necessarily run counter to the predictions of our model, which speaks not to the ability of parties to attract supporters in the short term but rather to the long term viability of parties.

parties have emerged as comparatively weak institutions, the one remaining question is whether the means by which parties secured funding in Russia is also consistent with the mechanism posited in the model. Understandably, very little is known (and is likely to be revealed any time soon) about the sources of finance for election campaigns in Russia. Still, a few general facts are known. First, most of observers have reported that campaign finance laws have been grossly violated by all parties and individual candidates (Belin and Ortnung, 1997); recall as well the example from the introduction concerning the amount by which estimates of campaign spending exceeded the officially reported spending. Second, it is well-known that no party has attempted to create a grass-roots effort to raise money.

Lacking systematic data, we therefore turn to a few specific observation. First, one manifestation of the inability of parties to establish solid local foundations is that major oil, gas, and metallurgy producers – well funded industrial actors that are especially interested in having a strong parliamentary lobby – supported a large number of non-party candidates in single-member districts. Colton and McFaul (2003) report that Gazprom, the largest natural gas producer in the world, financed about 100 candidates in single-district races in the 1999 parliamentary election, of which 50 were elected. Other large companies, primarily in extracting industries, also succeeded in creating a strong lobby within the 1999 parliament by funding individual candidates without serious party participation at the local level. Analysis done by one of the authors of this paper elsewhere with other co-authors of reports in *Kommersant* and *The Moscow Times* have led us to identify about 80 active businessmen in the 1999 Duma and about 70 in the 2003 Duma, of which the overwhelming majority have had interests in extractive industries such as gas, oil, and metallurgy (self-citation omitted).

Second, based on interviews conducted by one of the authors of this paper, we believe that on the day preceding the 2001 convention for *Yabloko* – a democratic party which up until that point had been represented in the Russian parliament since first multi-party elections took place in 1993 – Grigory Yavlinsky, the founder and leader of the party ('Ya' in the name of the party stands for the first two letters in his surname), met with one of the richest and politically ambitious businessmen in Russia. The businessman promised Yavlinsky that he would "fully finance" the entire 2003 electoral campaign. The next day, Yavlinsky suggested that the party should expel Vyacheslav Igrunov. Since 1995, Igrunov had been responsible for building regional branches of the party and training young party activists. A significant number of mid-level bureaucrats and local activists left the party with Igrunov.<sup>14</sup> In 1999, when Igrunov held the second slot on the party list in

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<sup>14</sup>This story was told to the author by Vyacheslav Igrunov in June 2003 (or alternatively, could be found on his personal web-site Igrunov.ru), and of course contains unverifiable statements such as on the timing of the oligarch's

the parliamentary elections. Yabloko filed 113 candidates in single-member districts, and Grigory Yavlinsky, the party leader, campaigned in more than 30 Russian regions. After dumping Igrunov in 2001, Yabloko's emphasis in the 2003 campaign was on television advertisement at the national level. Moreover, the vast majority of funding for Yabloko's 2003 parliamentary campaign came from a single oil company, YUKOS (and major shareholders of the company were present on the party list). Furthermore, the positions that the party adopted on some issues that one could describe as being related to YUKOS's interests – e.g., the redistribution of oil rents and privatization – ended up at odds with what had been the position of the party in previous years and may have reduced electoral support for both Yabloko's national PR list and its candidates in single-member districts. Another party that received money from YUKOS was the KPRF (the communists); again, top managers and major shareholders of YUKOS were present on the KPRF national party list. Perhaps not surprising, the KPRF scaled down its traditional anti-big-business rhetoric and stopped calls for high taxes on windfall profits of oil companies during the 2003 campaign. This change in stance may very well have contributed to their electoral losses.<sup>15</sup>

## 5 Conclusion

The primary contribution of this paper has been to introduce a model that explicitly links economic developments with party development in newly competitive political systems. In doing so, we also present the first formal consideration of the role of party finance in the development of political parties in newly competitive political systems. Our focus on party finance makes this a particularly appropriate avenue for formal analysis, as it is in area in which reliable empirical data are often hard to acquire, especially in countries such as Russia.

Our model has very little to say about intraparty competition, though this is certainly a salient feature of any political landscape. The theoretical framework developed in this paper might be utilized to such more subtle effects, i.e. linking allocation of authority within a party and distribution of money (both the revenue and expenditures) between different levels of party hierarchy. At the same time, we do not attempt to explicitly model dynamic features of party development. Still, our model explains why a centralized or personalized party, which gets most of financing from a single source, is less stable than a party which is built from the "bottom-up".

What does this model say about the current situation in Russia, which was a major motivating

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promise.

<sup>15</sup>On the party list component of the parliamentary election, the KPRF received about half the votes in 2003 that they had received in 1999.

example for the formal exercise? In 2004, the Putin administration put forward an electoral reform, raising the threshold that a party should cross to be represented in the State Duma (from 5 to 7 percent) and simultaneously abolishing single-mandate districts. In theory, this might strengthen incentives to form national parties. However, this makes the problems identified in this paper - the crowding out of local efforts by money collected at the national level - even more pronounced. Nevertheless, we would urge caution in applying the insights of our model to situations where elections are neither free nor fair. Moreover, the model was designed with a mixed electoral system in mind, which Russia now no longer has.

To return to the question with which we began the paper, we also believe that the model helps us understand what went wrong with democracy in Russia. While by this point the answer to the question is probably overdetermined, our model provides a direct link between two of the most salient features of Russia's transitional experience: the concentration of economic wealth in a small number of hands and the inability of strong political parties to emerge in Russian politics. While we will never know whether the Putin administration would have ultimately found it any harder to marginalize parties that had begun to develop a stronger grass-roots organization and following, it certainly could not have helped democracy's prospects that the parties were so weak after a decade of democratic experience.

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