

PUBLIC VENTURE CAPITAL AND PARTY INSTITUTIONALIZATION

JÓHANNA KRISTÍN BIRNIR
State University of New York–Buffalo

Funding of parties is common and controversial in new democracies. Nonetheless, the nascent literature about the effects of money in new party systems largely sidesteps the issue of public funding. This article seeks to begin filling this theoretical and empirical void. Two hypotheses are formulated about the expected effects of introduction and marginal increases in public funding on institutionalization of the party system. The hypotheses are then tested in a statistical study of all new democracies in Eastern Europe, the Baltics, and other former Soviet Republics. The results show strong support for the idea that public funding increases institutionalization of new party systems. This is in stark contrast to theories about more established democracies that hold introduction of public funding decreases institutionalization of the party system. Furthermore, the results suggest that differing thresholds to public funding have divergent effects on political institutionalization, but this effect is not necessarily linear.

Keywords: public funding; party institutionalization; Eastern Europe

The Mexican state recently convicted the Partido Revolucionario Institucional (PRI) of illegally receiving more than US\$45 million from the trade union at the state oil company Pemex. At the same time, the Partido Acción Nacional (PAN) is being accused of obtaining illegal private donations from abroad for Vicente Fox's campaign in 2000. According to some Mexican taxpayers, however, the real scandal involves the US\$500 million in public funds that political parties were allocated in 2003 because by law, only 10% of party funds can be raised privately ("Campaign Finance in Mexico," 2003). Mexico is only one of a number of new democracies where public

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funds make up a substantial portion of party funds. Nevertheless, current scholarly research on the effects of party funding in new democracies pays significantly less attention to public than private funds. Consequently, recent theories and evidence provide only a partial picture of how money matters in new democracies.

Conventional wisdom holds that money is a considerable influence on politics in more established democracies (Cox & Thies, 2000; Katz & Mair, 1995; Malbin, 1984). Yet theories of the effect of funding are rarely extended to new democracies (Ikstens, Smilov, & Walecki, 2002) and then, mostly through case studies (Burnell & Ware, 1998; del Castillo & Zovatto, 1998; Roper, 2002; van Biezen, 2000). Furthermore, there is considerably less consensus as to how money matters in new democracies (Samuels, 2001; Treisman, 1998). This article builds on the important theoretical insights provided by these studies to begin to fill the void pertaining to the effects of state funding on the institutionalization of party systems in new democracies.

Two hypotheses are proposed about the effects of introduction and changes in the barriers to public funding. In short, these posit that state funding of parties and/or candidates¹ increases institutionalization of party systems in new democracies. Theorizing is followed by two tests of the hypotheses on a sample of all new democracies in Eastern Europe, the Baltics, and other former Soviet Republics. The results show strong support for the idea that the advent of state funding increases institutionalization and some support for the idea that changes in the threshold of access to state funding matter for institutionalization of new party systems.

PUBLIC FUNDING AND INSTITUTIONALIZATION OF THE PARTY SYSTEM

Institutionalization of the party system or “the process by which organizations and procedures acquire value and stability” (Huntington, 1968, p. 12) is important for the healthy functioning of democracy (Kitschelt, Dimitrov, & Anev, 1995; Mainwaring, 1999; Mainwaring & Scully, 1995; Przeworski, 1975). This article follows Mainwaring’s (1999) definition of *party system institutionalization*. An institutionalized party system is a predictable party

1. Where political participants are publicly funded, the determination of whether the state supports candidates or parties is likely related to the electoral system. The greater the emphasis is on candidates, the more likely that funding will be distributed to candidates as opposed to parties. The distinction between public funding of a candidate as opposed to public funding of parties is theoretically not important to the hypotheses proposed in this article. Therefore I will refer to public funding of party and candidate interchangeably.

system where voters and party leaders know and can develop relationships through iterated interactions. In contrast to a fluid party system where parties come and go, Mainwaring articulates four conditions of a stable party system. First, an institutionalized party system is expected to sustain a fairly stable core of parties from one election to the next, whose vote totals do not fluctuate to the extent that major parties regularly appear and disappear. Second, institutionalized parties have strong roots in society. Third, parties and elections are accorded legitimacy by all participating actors. Fourth, party organizations acquire legitimacy of their own rather than being at the disposal of individual political leaders. In addition, the following discussion assumes that organizing parties, to compete in elections, has costs; politicians seek reelection; and voters seek policy and/or particularistic benefits.²

Due to the scant attention paid to the effects of state funding in the current literature, both the absolute role of state funding and the relative importance of state and private funding in the process of party system stabilization are underspecified.³ Therefore, the question asked in this article is, How does public funding affect party system stabilization in new democracies?

COMPARING SYSTEMS WITH AND WITHOUT PUBLIC FUNDING

The expected pattern of party system institutionalization in systems where state support to political parties is negligible or nonexistent is party system instability in the short term, as in Russia⁴ (Treisman, 1998), and institutionalization with time through emphasis on reputation, as in Brazil (Samuels, 2001).⁵ In the absence of public funding, reputation in time will likely become as important for attracting private money in Russia as it is in Brazil. Early instability and development of greater party stability through personal

2. None of these assumptions are controversial. Rather, they are well established in the electoral literature (see, e.g., Downs, 1957; Fiorina, 1981; Geddes, 1994).

3. For a useful typology of the sources of funding, see Burnell and Ware (1998, pp. 11-12).

4. Were Russia to increase state funding of parties substantially, our expectations regarding patterns of institutionalization in that system should change. The new 2001 party law did change Russian funding regulations. From 2001 on, political parties that receive more than 3% of the vote are eligible for "0.005 times the minimum monthly wage . . . multiplied by the number of voters on the voters lists at the latest elections of deputies to the State Duma . . . or at the latest election of [the] President" (Russian State Duma, 2003, Article 33). Considering, however, that in 2002 the Russian minimum wage was 450 rubles (BBC News, 2002), or less than US\$15, this cannot be considered a significant increase.

5. Burnell and Ware (1998, p. 7) make a similar point, arguing that certain funding rules may encourage clientelism that then may lead to hyperfactionalism. They do not, however, articulate what those rules might be.

reputation, however, is not necessarily the proper characterization of party system institutionalization in all new democracies.

What then are the effects of introducing state funds into party competition in new democracies? State funding advantages parties that get it. State support to parties is either provided to all parties that participate in elections or as a function of votes received in an election.⁶ Even where all parties that participate in elections receive funds, the funded electoral parties have an advantage over parties that may be organizing but have not yet competed and received state funding. Parties that receive state support can use this money to finance continued subsistence and/or future electoral efforts. In effect, therefore, state funding creates a barrier to entry for parties that have not received state support. The core of funded parties has an advantage that accumulates between elections and makes new entry increasingly difficult.

The remaining question is why private funds are not expected to have a similar stabilizing effect, because parties that have received private funds also have an advantage over parties without private funds. It appears that new parties have at best limited access to private funding, and private funding is fickle even for established parties. Private funding is limited and concentrated on "buying" policies and/or particularistic goods and so by definition, more established parties with access to such goods will receive most private funds. Furthermore, scarcity of donors increases the difficulty of obtaining private funds. For instance, Samuels (2001) contends that in Brazil, private campaign funding is dominated by a relatively few individuals. Samuels maintains that "an average of only seventeen individuals per congressional candidate, contribute to political campaigns" (p. 34). Given established or increasing income inequalities in new democracies, generalizing an assumption of few significant donors seems reasonable. In addition, as pointed out by Treisman (1998, p. 14), unless the candidate delivers the goods, private funds will dry up between elections; and in an unruly new legislature, delivery is difficult at best.

Initially at least, the consequent difference we would expect to see between systems with and without state support of candidates is greater electoral fluidity in systems that do not support candidates with public funds. Where parties do not receive state funds, they do not have the same advantage over new entries as parties in states that support parties with public funds. Therefore in a new democracy where candidates do not have access to public funds, we would expect more frequent turnover of candidates and/or parties, particularly at the margins of electoral competition. Exit and entry, of course,

6. This includes funding to parliamentary parties because representation is a function of number of votes received.

bear on the second condition of institutionalization of the party system articulated by Mainwaring (1999, p. 31).⁷ The greater the rate of exit and entry of parties, the lower the levels of institutionalization. It follows that voters' attachments to fly-by-night parties are limited. Where parties are not state funded and, therefore, often short lived, voters' incentives to establish ties to parties are decreased, whereas their support of parties with time, of course, bears on the first condition of institutionalization (Mainwaring, 1999, p. 28).⁸

This line of reasoning is in stark contrast to the implications of decreasing political institutionalization in Katz and Mair's (1995) widely heralded cartel party argument for Western Europe.⁹ The cartel party argument holds that state funding in Western Europe results from parliamentary parties' collusion to prevent competition from new parties. Katz and Mair argue, however, that this introduction of public funds decreased parties' incentives to establish lasting relationships with voters.¹⁰ Under conditions of state funding, the economic survival of a party does not depend on membership fees and/or donations. Because short-term recruitment efforts may be more successful electorally than long-term efforts spent to establish lasting relationships with loyal members, parties receiving state funding do not attempt to build lasting relationships with voters. The result is decreasing institutionalization of the party system.

However, scholars of new democracies warn that uncritically applying theoretical explanations developed to describe more established democracies to new democracies is of questionable practice (Mainwaring, 1999, p. 23; Treisman, 1998, pp. 7, 16). Therefore it cannot be assumed that the relationships parties have with members follow the same patterns in new democracies as they do in more established democracies. Indeed, anecdotal evidence supports the idea that they differ significantly.

The first difference is that among other things, due to difficulties of economic transition and underdeveloped party bureaucracies, parties in new democracies cannot rely on voters for sustenance. For instance, parties in

7. Mainwaring (1999) observes, "The ability of parties to survive a long time provides one indication that they have probably captured the long term loyalties of some social categories" (p. 31). To be clear, Mainwaring primarily discusses major parties. In new democracies, however, the distinctions between major and minor party are not established and sometimes change rapidly. Theoretically, therefore, all party entry and exit bears on the early institutionalization of the system.

8. Mainwaring (1999) adds that "the patterns of party competition manifest regularity, is easy to measure and compare through an index of electoral volatility" (p. 28).

9. The merits of the theory are debated in the literature (Kitschelt, 2000).

10. Katz and Mair (1995, p. 16) argue that cartel parties are absorbed by the state to become semi-state agencies.

Romania were publicly funded in the 1990 election but not in the 1992 election.¹¹ Despite this fluctuation in public finances, party organizers of the Democratic Convention that ruled Romania from 1996 to 2000 maintained when interviewed in 1996 that membership fees were never systematically collected, even though the statute of the electoral coalition stated that members were to pay fees. Furthermore, party organizers claimed that if any member fees were collected locally, funds were generally not transferred from local chapters to the main party office. The other principal parties told a similar story, ranging from an absence of member registries and consequent absences of fee collection to the practical consideration of statutory fees as voluntary donations (Birbir, 2000). Although reporting is “patchy and often of dubious accuracy,” others tell a similar story (Lewis, 1998, p. 137). In the more developed Hungary and Czech Republics, member fees constitute from nominal to a small portion of party funding, with the exception of Communist successor parties (Lewis, 1998, pp. 138-139).

The second difference between the effects of public funding in new and more established democracies lies in the timing of introduction of public funding relative to the party system development. In the new democracies in Eastern Europe and the former Soviet Republics, public funding was often introduced by the state during or very soon after democratization. The same does not hold true for more established democracies where party systems are often well developed by the time public funding is introduced. Germany, for example, gave state subsidies to parliamentary parties to promote “political education” beginning in 1959 and introduced direct public funding of political parties in 1967. Denmark instituted similar legislation in 1969, French parties have been publicly funded since 1965, Italian and Canadian public funding date back to 1974, and in Australia, parties have been publicly funded since 1984 (Alexander, 1989). Consequently, when state funding was instituted, parties in these countries had already established recruiting practices that aimed to build long-term relationships with voters. As a result, although a comparison of West European party systems before and after introduction of public funding may show a relative decrease in party system institutionalization after funding is introduced, this observation should not be generalized to new democracies where funding was adopted during democratization.

Coupling these two observations, inconsequential role of member funding and early introduction of state funds, expectations about the

11. For a further discussion of Romanian party system development and funding legislation with an emphasis on the effects on corruption, see Roper (2002).

institutionalization of the party systems with the advent of state funding necessarily differ from expectations about institutionalization of the party systems, as Katz and Mair (1995) argue.

By definition, an institutionalized party system is expected to sustain a fairly stable core of parties and develop stable relationships between voters and parties from one election to the next. The argument proposed in this article is that in new democracies, where private funds are scarce, and in the absence of member fees, public funds may be the principal or even the sole source of funding for many new parties. Parties that do not receive state funds and have little or no sources of private or member funding cannot compete and are effectively excluded. Voters, in turn, cannot establish lasting relationships with short-lived parties. Therefore the following can be hypothesized:

Hypothesis 1: Introduction of state funding of parties increases institutionalization of the party system in new democracies.

Moreover, if state funds create barriers to entry, the higher the barrier the more difficult the entry becomes. The reason is that the more public funds any one party receives, the stronger its position against a new challenger. It is likely that where a few large parties are able to entrench their position early on with the support of considerable state funds, barriers to new party entrance into the system are significant. Therefore the following can be hypothesized:

Hypothesis 2: As barriers to state funding increase, institutionalization of the party system in new democracies increases.

TESTING THE PUBLIC CAMPAIGN FUNDING HYPOTHESES

CASE SELECTION: EASTERN EUROPE, THE BALTICS, AND OTHER FORMER SOVIET REPUBLICS

The hypotheses developed in this article are limited to explaining the effect of public funding in new democracies and, thus, the case selection in this article is limited to them. Furthermore, within the group of new democracies, alternative variables that potentially affect institutionalization of the party system include, but are not limited to, concurrent economic transitions, prior democratic party affiliations, and Communist legacies. To hold many of these alternative variables constant, this study is restricted to all

Table 1
Vote Percentage Threshold for State Subsidy by Country and Year of Legislative Election

Country	Election Year	Vote Threshold for State Subsidy	Country	Election Year	Vote Threshold for State Subsidy
Albania	1991	3	Lithuania	1992	4
Albania	1992	3	Lithuania	1996	5
Albania	1996	3	Lithuania	2000	3
Albania	1997	3	Macedonia	1990	Unknown
Albania	2001	0	Macedonia	1994	3
Bosnia	1996	0	Macedonia	1998	3
Bosnia	1998	0	Macedonia	2002	3
Bosnia	2000	0	Moldova	1994	No subsidies
Bosnia	2002	0	Moldova	1998	No subsidies
Bulgaria	1990	1	Moldova	2001	No subsidies
Bulgaria	1991	1	Poland	1991	No subsidies
Bulgaria	1994	1	Poland	1993	5
Bulgaria	1997	1	Poland	1997	3
Bulgaria	2001	1	Poland	2001	3
Croatia	1990	Unknown	Romania	1990	0
Croatia	1992	3	Romania	1992	No subsidies
Croatia	1995	3	Romania	1996	3
Croatia	2000	3	Romania	2000	5
Czech	1990	2	Russia	1993	No subsidies
Czech	1992	2	Russia	1995	0
Czech	1996	3	Russia	1999	0
Czech	1998	3	Slovakia	1990	3
Czech	2002	3	Slovakia	1992	3
Estonia	1992	No subsidies	Slovakia	1994	3
Estonia	1995	5	Slovakia	1998	3
Estonia	1999	5	Slovakia	2002	3
Estonia	2003	5	Slovenia	1990	Unknown
Hungary	1990	1	Slovenia	1992	Unknown
Hungary	1994	1	Slovenia	1996	1
Hungary	1998	0	Slovenia	2000	1
Hungary	2002	0	Ukraine	1994	No subsidies
Latvia	1993	No subsidies	Ukraine	1998	No subsidies
Latvia	1995	No subsidies	Ukraine	2002	No subsidies
Latvia	1998	No subsidies			
Latvia	2002	No subsidies			

Source: For sources, see <http://pluto.fss.buffalo.edu/classes/psc/jkbirnir/>.

stable democracies in Eastern Europe, the Baltics, and other former Soviet Republics.

Stable indicates absence of large-scale civil unrest.¹² *Democratic* refers to the ability of citizens to participate in free and fair elections by fielding and electing political parties as restrained only by electoral legislation.¹³ Table 1 lists the countries that fit this definition. I divide countries that are not fully independent in their first election into those that are occupied or under the influence of a single foreign state and countries that belong to a federation or are jointly “supervised” by the international community.¹⁴ Elections in the former are excluded, but the latter are included because the former are not democratic, whereas the latter may be democratic as a part of the federation although they choose to secede from the federation or cease to be internationally supervised at a later date. A further requirement for considering the elections prior to independence in the countries that belong to a federation is that each state elect separate state legislatures.

THE DEPENDENT VARIABLE: INSTITUTIONALIZATION OF THE PARTY SYSTEM

Mainwaring’s (1999) measures of institutionalization include aggregate measures such as volatility of electoral preferences as an indicator of stability in the pattern of party competition as well as party exit and entry as indicators of parties’ roots in society. His indicators of party system institutionalization also include measures that aim to gauge individual voter actions and attachments to parties through the use of survey data. Because comparative exit polls and survey data from Eastern Europe and the former Soviet Republics are scarce, the hypotheses tested in this article use the aggregate measures of electoral volatility and new party entry. The dependent variables for each test differ, therefore, as do the methods. Each is explained in turn.

12. Consequently, due to serious civil and political turmoil, the Yugoslav federation of Serbia and Montenegro is excluded. Albania, however, where there have been incidents of serious civil unrest, particularly in 1997, is included because the central government remained more intact.

13. These former Soviet Republics are excluded for the following reasons: The first competitive parliamentary elections in Armenia were held in 1999. Shortly thereafter, however, the elected prime minister, parliamentary speaker, and four other deputies were assassinated. Opportunities for political opposition in Georgia have been limited since Shevardnadze became the president; his party has constituted the government from 1992 until recently. Although Kyrgyzstan has made some progress toward democracy, the 1995 and 2000 elections were tainted by irregularities. The first multiparty elections in Tajikistan’s history were held in 2000. Democratic elections to the legislature have not been held in Azerbaijan, Belarus, Kazakhstan, Turkmenistan, and Uzbekistan (Nohlen & Grotz, 2001).

14. By this rule, the first elections in the occupied Estonia and in Poland are excluded. To the contrary, elections in 1990 in the Czech and Slovak Republics and in Croatia and Slovenia are included. The internationally supervised elections of 1996 and 1998 in Bosnia are also included.

Pattern of Stability in Party Support: Electoral Volatility

Electoral volatility is the common empirical indicator of the stability of the pattern in intraparty competition. Electoral volatility denotes the percentage of votes gained by any one party and lost by any other party in each pair of elections. The greater the volatility, the more voters have switched between parties from one election to the next. The standard measure of electoral volatility is Przeworski's (1975) index, which accounts for change in votes for parties between elections.¹⁵ Aggregate national volatility is a rough measure that potentially conceals some of the true volatility that occurs in each election (Mair, 2000). Nevertheless, as Mair (2000) notes, this measure is a useful indicator where aggregate comparative survey data may not be available. This is certainly the case for democracies in Eastern Europe, the Baltics, and other former Soviet Republics. Furthermore, although aggregate volatility likely hides some of the underlying volatility in each country, there is no reason to believe that there is a systematic difference in how volatilities are hidden between countries. Therefore the measure is a good indicator of the differences in volatility of party support between countries.

Application of this measure is fairly straightforward in established democracies where party systems are either well or somewhat consolidated. However, in new democracies where party systems are considerably more fluid, the measure has presented certain problems. The most serious problem is gauging the amount of change in a system where parties are merging and splitting, changing names and leaders. To distinguish between real electoral volatility and volatility in party cohesion or the legislature, it is necessary to trace the origin of all parties and coalitions competing in each election for each country. Consequently, to assess the amount of change for parties that split between elections, the votes for all the "offspring" in the first election after the split are compared to the vote for the "mother party" in the previous election. In the second election after a split from a mother party, the changes in the offspring votes are measured separately. For parties that joined coalitions, the individual party vote in the election before the coalition was formed is compared with the aggregate vote for the coalition. In the second election

15. The formal definition of *electoral volatility* is

$$\sum_{i=1}^n \left| \frac{P_{it} - P_{i(t+1)}}{2} \right|$$

Volatility between elections at t and $t + 1$ is measured as half the sum of the absolute difference between vote shares (P) of all parties in each election. The shares are taken without their sign in the aggregate and half of the observed difference is used. Finally, all parties are counted in the measure (for use of the measure see, e.g., Bartolini & Mair, 1990; Birnir, n.d.; Madrid, in press; Mainwaring & Scully, 1995; Pedersen, 1979; Przeworski, 1975; Rose, 1995).

after the coalition was formed, the change in vote is measured for the coalition between elections. If parties split from the coalition, their volatility is measured with reference to the earlier coalition vote in the first election after the split but separately thereafter.

Unfortunately, comprehensive data are difficult to come by for new democracies. Therefore I had to make several adjustments to the above theoretical outline of the ideal calculation of volatility. First, due to lack of data, to maintain consistency the volatility calculation here includes only parties that received seats in either election in each pair. Also due to lack of comprehensive electoral data for countries with mixed electoral systems, I counted the proportional vote percentages only.¹⁶

Party Stability of Ties to the Electorate: New Party Entry

Because all parties are new in the first election, I begin the count of the dependent variable of new parties in the second election after democratization. Only entering parties that did not receive any seats in the preceding election are counted.¹⁷ Because the idea is to record level of stability in the party system from one election to the next, a coalition is counted as a single new party even when it is an explicit merger of two established parties. Furthermore, a new party created by a split from a larger party is counted as a new party in the first election that it gains seats independently.¹⁸ To avoid creating extreme outliers by overcounting new party entry in countries with single member districts such as Ukraine, Latvia, and Hungary, independent candidates are not counted as new parties.¹⁹ Finally, because comprehensive data on all parties running in new democracies are hard to come by, this simple test is

16. I was unable to find any vote percentages for the 1996 Bosnian election.

17. An alternative is to count system "change" by enumerating both parties that exit and new parties that enter. The problem with a change variable, however, is the potential for double counting parties that exit and enter under a new name. Therefore I choose to count only entering parties.

18. To test the robustness of this variable, I experimented with counting. I created two alternative variables: one where I counted brand new parties only in addition to coalitions and another where I counted only parties that split from an established party and coalitions. The substantive results remained similar irrespective of which variable I used. It seems, therefore, that funding affects both the entry of brand new parties and the likelihood that new parties split off from established parties and run independently.

19. I included a separate variable accounting for countries with independents in alternative runs. This variable did not affect the significance of any of the funding variables but instead, as expected, decreased the significance of the mixed district structure variable in both tests.

restricted to new parliamentary parties rather than to all parties competing in elections.

THE INDEPENDENT VARIABLE: STATE FUNDING

State support of parties includes many different types of assistance. In general, the literature makes a distinction between direct and indirect support. The principal sources of indirect state support in the cases studied here are access to the state media and tax relief. Direct support includes subsidies in kind and direct public funding of parties. According to Ikstens et al. (2002), there is little variance in access to the state media and subsidies in kind that are currently provided to parties in Eastern Europe. In their study, all the states provide the former and all but 1 the latter. Only a minority of the countries they studied (4 out of 17) provide any tax relief, but 14 give parties and/or candidates direct subsidies (Ikstens et al., 2002, p. 2)

Direct subsidies are either in the form of funding of campaign expenditures or funds for parties that are not earmarked specifically for campaign use. Pinto-Duschinsky (2002) notes that although "in theory, state funding provided specifically for legislators is distinct from subventions to their party organizations outside the legislature, [in practice, they are likely (at least in part) to be used for partisan electoral purposes]" (p. 15). Consequently, I do not distinguish between direct subsidies to parties or parliamentary groups and whether the funds are earmarked for election purposes.

Thresholds for receipt of state funding range from none, where all candidates that run in elections are funded, to a vote percent requirement to no funding at all. There is considerable variance in the threshold requirement for obtaining funds between countries that do have state subsidies. There is some intracountry variance in this threshold as well. Romania, for instance, has employed three different thresholds for direct subsidies since democratization. In addition, parties were not funded during the 1992 election. Although that much variance within a country is unusual, other countries also have varied the threshold for receipt of funding. Consequently, this variable lends itself well to the study of the effects of access to direct state funding on the institutionalization of the party system.

To test both the absolute effect and the marginal effect of changes in access to subsidy, I use dummy variables to account for states without public funding and to represent separately each threshold for receipt of funding among states where public funds are distributed. These variables range from no threshold where all candidates are funded, to 1%, 2%, 3%, and 5% for countries that require the respective percent of the votes cast for access to

public funding. None of the countries had a funding level of 4% in the second election in a pair. The benefit of using dummy variables, rather than ordinal variables accounting for the threshold, is that the dummy variables do not impose linearity on the relationship between barriers to funding and new party entry. Rather, if the second hypothesis is correct, this linearity will emerge from the statistical analysis. The drawback is that the number of cases included is limited, a problem to which I will return in the discussion of the results. Table 1 details the funding threshold in each country in each election.

Threshold for receipt does not account for amounts of public funding. These amounts vary widely and are often not specified in the law but rather, are to be determined "by the budget." Anecdotally, party turnover in Russia certainly supports the idea that amount of funding bears on party survival, as the Russian party system is extremely unstable and allots negligible amounts of public funding to parties and candidates. In 1995, a total of US\$1 million was divided among all Russian candidates. In 1999, this amount was increased to US\$4.6 million, which when divided between all candidates amounts to slightly less than US\$40 per person (Ikstens et al., 2002, p. 55). Although private funding figures from Russia are scarce and unreliable, it is clear that state contributions do not compare to the millions of private money spent on campaigns (Treisman, 1998, pp. 2-3). Thresholds for public funding in Russia are also very low, supporting the idea that lower public funding barriers decrease institutionalization of the party system. In discussing relative amounts of support in Eastern Europe, Ikstens et al. (2002, pp. 6-8) single out Bulgaria as being on par with Russia in allotting "negligible" amounts to funding of parties and employing a low threshold for access to funding. Anecdotally, Bulgaria fits the description of a less institutionalized party system quite well. Parties enter and exit electoral competition frequently, and electoral volatility has increased since the first elections. In the hope of gaining preliminary insight into the issue of how amounts of funding affect institutionalization, the following analysis accounts specifically for Russia and Bulgaria with a separate dummy variable.

CONTROL VARIABLES: INSTITUTIONS AND THE ECONOMY

Electoral rules have been shown to affect party fragmentation and volatility worldwide (Bartolini & Mair, 1990; Birnir, 2004, n.d.; Cox, 1997; Mainwaring & Scully, 1995; Roberts & Wibbels, 1999; Shugart & Wattenberg, 2001). The general consensus in the literature is that vote threshold and district magnitude exert the greatest influence on party fragmentation and volatility. In general, higher barriers are thought to produce lower frag-

mentation. The effect of barriers on volatility is mixed.²⁰ Consequently, the first measure used here is a measure of the vote threshold percent required for legislative representation. Following new evidence suggesting district structure types differ significantly (Kostadinova, 2002; Shugart & Wattenberg, 2001), I account for proportional, plurality, and mixed systems separately with dummy variables.

It is also widely believed that citizens take economic conditions into consideration when they decide for whom to vote. It is probable that economic conditions affect both the emergence of new parties and the likelihood voters will switch their allegiance to that party. There is, however, little consensus as to which economic effects influence people and precisely how (Kinder, Adams, & Gronke, 1989; Lewis-Beck & Paldam, 2000). Consequently, I use both the annual percentage change in the rate of growth of real GDP between the year of and preceding the second election in each pair and GDP per capita in the year of the second election to measure the effect of the economy. Unfortunately, economic data for the most recent election years are missing for nearly all of the countries in the sample. Therefore I included both variables only in the first specification of each test. As neither measure affects the funding variables, they are omitted from subsequent specifications.

METHOD

Because electoral volatility is a continuous variable, the estimation technique used for the first test is ordinary least squares regression. Table 2 shows the relationship between funding and electoral volatility. The number of new parties entering is a count variable. The new party count ranges from 0 to 15 parties. The average is 3.4 and the standard deviation is 3.5. Poisson is the appropriate form of estimation for count variables if the mean and variance of the dependent variable are approximately equal (Long & Freese, 2001).²¹ The party count variable is clearly more dispersed than that. Therefore I use negative binomial regression to assess the effect of each independent variable on the outcome number of new parties entering the legislature. Table 3 shows the relationship between funding and new party entry.

20. In Western Europe, high barriers (majoritarian systems) induce greater volatility when party fragmentation is low, but liberal barriers (proportional representation) induce greater volatility when party fragmentation is high (Bartolini & Mair, 1990, pp. 157-159). Birnir (n.d.) finds that party fragmentation is positively associated with volatility worldwide.

21. The overdispersion parameter alpha in the estimates was close to 8 and highly statistically significant, confirming the choice of negative binomial regression in lieu of Poisson. Concerns about interdependence of observations also support the choice of a negative binomial regression (see, e.g., Hurwitz & Lanier, 2003; Senese, 1997).

Table 2
Public Funding and Electoral Stability

Independent Variable	Specification 1	Specification 2	Specification 3
Funding variables			
States that do not publicly fund parties and/or candidates ^a	15.469 (5.834)**	13.833 (3.648)***	-16.308 (5.304)***
States with public funding; Threshold 0% (all parties and/or candidates funded) ^b			-15.964 (5.681)***
States with public funding; Threshold 1% ^b			-18.410 (9.560)*
States with public funding; Threshold 2% ^b			-14.602 (3.945)***
States with public funding; Threshold 3% ^b			-8.330 (5.010)
States with public funding; Threshold 5% ^b			8.129 (5.133)
Control variables			
Plurality district structure ^c	-1.306 (11.928)	-1.725 (10.296)	-3.403 (10.820)
Mixed district structure (proportional and plurality districts) ^c	9.599 (3.665)**	6.817 (2.670)**	7.573 (2.934)**
Electoral threshold	0.612 (1.542)	0.972 (1.171)	0.371 (1.306)
GDP growth	-0.081 (0.371)		
GDP per capita	0.001 (0.001)		
Constant	10.453 (6.817)	13.625 (5.405)**	29.905 (6.700)***
Observations	36	48	48
R ²	.35	.35	.40

Note: Main entries are ordinary least squares estimates with standard errors in parentheses.

a. Reference category = states that publicly fund parties and/or candidates.

b. Reference category = states that do not publicly fund parties and/or candidates.

c. Reference category = proportional district structure.

* $p < .10$. ** $p < .05$. *** $p < .01$.

Table 3
Public Funding and New Party Entry

Independent Variable	Specification 1	Specification 2	Specification 3
Funding variables			
States that do not publicly fund parties and/or candidates ^a	0.910 (0.336)***	0.607 (0.238)**	-0.852 (0.291)***
States with public funding; Threshold 0% (all parties and/or candidates funded) ^b			-2.030 (0.443)***
States with public funding; Threshold 1% ^b			0.076 (0.533)
States with public funding; Threshold 2% ^b			-0.639 (0.209)***
States with public funding; Threshold 3% ^b			-0.287 (0.292)
States with public funding; Threshold 5% ^b			1.465 (0.347)***
States with negligible amounts of public funding (Bulgaria and Russia)			
0.712 (0.295)**	0.605 (0.266)**		
Control variables			
Plurality district structure ^c	-0.180 (0.762)	-0.446 (0.748)	-0.837 (0.663)
Mixed district structure (proportional and plurality districts) ^c	0.620 (0.236)***	0.484 (0.192)**	0.388 (0.173)**
Electoral threshold	-0.149 (0.088)*	-0.168 (0.071)**	-0.253 (0.069)***
GDP growth	0.011 (0.023)		
GDP per capita	-0.23E-04 (0.76E-04)		
Constant	1.351 (0.351)***	1.545 (0.311)***	2.574 (0.325)***
Observations	38	50	50

Note: Main entries are negative binomial estimates with standard errors in parentheses.

a. Reference category = states that publicly fund parties and/or candidates.

b. Reference category = states that do not publicly fund parties and/or candidates.

c. Reference category = proportional district structure.

* $p < .10$. ** $p < .05$. *** $p < .01$.

RESULTS

Electoral Volatility as an Indicator of Party System Institutionalization

The first test of the effects of public funding, shown in Table 2, uses electoral volatility as an indicator of party system institutionalization. The number of cases (51) is determined by availability of data in the year of the election, beginning with the second election after democratization. Party funding data for Slovenia is missing for 1992, reducing the total number of cases to 50. The total number of cases in this test is at 48, missing 2 additional cases. I was unable to find vote share information from the 1996 election in Bosnia. Furthermore, volatility for the 1994-1998 election pair in Moldova is missing because without the Communist party, which was banned in 1994, I cannot calculate volatilities until the 1998-2000 election pair.

The first two specifications in Table 2 strongly support Hypothesis 1 that public funding increases institutionalization of the party system. Compared to the reference category of states with funding, the increase of electoral volatility in countries where parties are not funded is significant or highly statistically significant. Substantively, the effect is also quite large. The absolute difference between systems with and without state funding is an increase in volatility of more than 13% in states that do not fund parties. The average electoral volatility in the sample is 22.8 with a standard deviation of 10.1. To compare, according to Mainwaring and Scully's (1995) classification, institutionalized party systems in Latin America between 1970 and 1990 ranged in average volatility in elections to the lower chamber from just more than 9% to 18%. In turn, volatility levels greater than 30% qualified systems as inchoate in their account. In this article, party systems that have exceeded 30% volatility between elections include Bulgaria, Lithuania, Russia, and Ukraine.

The third specification in Table 2 tests Hypothesis 2 in that increases in threshold requirements for public funding are associated with increasing institutionalization as indicated through reduction in electoral volatility. All of the funding threshold variables have the expected negative sign with reference to states where parties do not receive public funds. Moreover, the first two and the fourth threshold variables are statistically significant.²² However, the relationship between institutionalization and barriers to funding is not clearly linear. I am, however, reluctant to interpret the substance of this finding any further because of the limited number of cases that pertain to each threshold. Rather, suffice it to say that the effects of differing thresholds pro-

22. I also report significance at the 10% threshold because the funding hypotheses are directional and the 10% level in a two-tailed test is the 5% threshold in a one-tailed test.

vide interesting possibilities for future studies. Finally, all three specifications single out Bulgaria and Russia to test the effect of negligible state funding. This variable increases volatility as expected but is not statistically significant.

Of the institutional variables, mixed district structure is the only significant predictor of electoral volatility. With reference to proportional districts, mixed district structures significantly increase volatility. Plurality electoral systems, however, do not have a separate discernible effect on volatility when compared to proportional systems.²³ Furthermore, electoral threshold does not significantly affect volatility of electoral preferences. Neither economic variable had a statistically significant effect on volatility, but a larger sample will likely change this. Inclusion of other control variables such as time and size of the legislature did not improve the fit of the model or affect the funding variables and these are, therefore, excluded from the discussion here.

In sum, the introduction of public funding does increase institutionalization of the party system in that it stabilizes vote shares of parties between elections. Furthermore, dissimilar barriers to public funding have a different effect on the change in party vote shares between elections. It is not clear, however, that this relationship is necessarily linear as anticipated.

New Party Entry as an Indicator of Party System Institutionalization

The number of cases in this test is 50 due to missing data from Slovenia in 1992. The first two specifications in Table 3 support Hypothesis 1, suggesting that there is a statistically significant difference between the higher rate of new party entry into systems where parties are not funded and the reference category of countries where parties receive state funds. The first specification includes economic control variables, but these restrict the number of available cases significantly and are dropped from the second and third specifications. According to the second specification,²⁴ the average increase in the rate of new parties entering systems where no parties are funded is 2.5 when compared to systems where parties are funded. In other words, between two and three more parties enter systems without public funds than systems where parties are publicly funded in every election, holding institutional variables constant at average values. The average number of new parties in the sample in each election is 3.5. Substantively, an introduction of two or three more new parties in every election in systems without public funds nearly doubles

23. Alternative specifications did, however, show that volatilities in plurality systems are significantly lower than volatilities in mixed systems.

24. Using the *prgen* procedure from Long and Freese (2001).

the average number of new parties entering, clearly derailing the institutionalization of the party system.

The third specification tests the different effects associated with marginal increases in funding threshold proposed in Hypothesis 2, with reference to the category of states where parties are not publicly funded. This specification shows that funding decreases new party entry; however, it does not support the idea that a decrease in funding threshold is linearly associated with increasing number of parties. This specification does suggest, however, that there are statistically significant differences between the effects of various funding levels on the number of parties that enter the system in any given election.

All specifications attempt to get at the alternative understanding of funding that is associated with amount of funding. Following the classification by Ikstens et al. (2002, pp. 6-8) of Bulgaria and Russia as countries where funding, although widely available, is negligible, I included a dummy variable accounting for these countries. The coefficient associated with this variable is statistically significant or highly significant in the expected direction in every specification. Clearly, therefore, in addition to barriers to funding, amounts of funding matter. If the amounts of funding that parties and or candidates receive are exceedingly low, public funding loses its ability to act as a barrier to new party entry.

In the second and third specifications where the number of observations is greater, I find that electoral threshold has a significant or a highly significant effect on the number of parties entering the legislatures—the higher the threshold, the lower the number of new parties. When compared to systems that use proportional electoral systems, plurality systems have a decreasing effect on the number of entering parties as expected, but this effect is not statistically significant. However, mixed systems increase the number of new parties entering when compared to proportional systems, and this effect is statistically significant. Increased aggregate growth and increased wealth do not significantly affect the number of new parties in the legislature. In all likelihood, this does not indicate that the economy is immaterial; instead, it is more likely due to the low number of observations. Alternative specifications—including time, size of the legislature, and presence of independents—did not improve the fit of the models significantly or affect the significance of the funding variables and, thus, are omitted.

In sum, lack of public funding does decrease institutionalization of the party system in that it increases the number of new parties entering the system in each election. Moreover, there is some evidence that thresholds to access of funding change institutionalization of the party system, but not necessarily linearly.

DIRECTIONS FOR FUTURE STUDY

Although increased institutionalization of the party system may have positive results, this is not to argue that instituting public funding is an uncomplicated or even a necessary condition for institutionalization. Some of the complications associated with public funding arise from the fact that the rules governing funding are, for instance, determined by the people who stand to gain from restricting state funds to large legislative parties only. There may not be sufficient funds in the state budget to cover basic infrastructure, let alone funding of political candidates. Furthermore, the analysis undertaken here distinguishes only in a preliminary way between amounts of funding. Changing the amounts available where there is public funding may change the effect of public funding considerably. It is hoped that disclosure law and enforcement will accompany increasingly detailed funding regulation in new democracies so that future research can examine both the effects of thresholds for funding and the consequences of divergent amounts.

In addition to the role public funds play in institutionalization of new party systems, the relationship between public and private money is theoretically and empirically underexplored. Samuels's (2001, p. 28) assertion that public funds may decrease or even eliminate the competition for private money implies a negative linear relationship, or at least a negative step relationship, between increases in supply of public funding and decreasing demand for private funding. In other words, where parties are publicly funded, they have less incentive to seek private funds.

Theoretically, however, it is not clear that increased state funding necessarily decreases demand for or supply of private funding. If organizing parties to compete in elections is costly, parties that have access to funds have an advantage over parties that are not funded. Access to private funding is determined by a party's ability to deliver policies or particularistic goods.²⁵ The larger the party is, the greater its ability to deliver. Thus on average, the larger the party is, the more private funds it receives. It is also likely that larger parties receive the bulk of public funding, which in turn is based on ability to secure votes or is given to all candidates and/or parties.²⁶ It is, therefore, likely that empirically, there is a positive relationship between the amounts of private and public funding a party receives. However, it is not clear that advent of public funding eliminates the demand for private funds. The reason is parties may continue to seek private money even when they receive public

25. Adding the parties' ability to deliver, this assumption is similar to Samuels's (2001) supply and demand hypotheses that supply of campaign funds is based on available services.

26. For current information on Eastern European law, see Ikstens, Smilov, and Walecki (2002). For a broader sample see, for instance, Austin and Tjernström (2004).

funds because any party that successfully combines the two may edge out competitors that only have access to one or the other. Similarly, it is not clear that increasing public funds necessarily decreases supply of private money. Rather, publicly well-funded parties may simply require increased amounts of private funding to deliver particularistic benefit, thereby increasing the supply of private moneys.

Another issue to consider in terms of how supply of public funding affects demand for private funding is the amount of public and private funding. As noted by Samuels (2001), fundraising is not only an absolute but also a relative effort. Consequently, it is necessary to specify that whatever we expect is the relationship between public and private funding, this expectation applies to a single system or to a comparison of systems where we hold all else constant. Therefore the first stab at assessing the effect of divergent amounts of public funds and the relationship between supply and demand for public and private funds may require a number of thick case descriptions. In any event, both lines of inquiry remain a fruitful venue for future study.

CONCLUSIONS

The effects of funding in new democracies are an underdeveloped area of study. Recent scholarly work, including this article, shows that uncritical adoption of theories about the effects of funding in established democracies is not appropriate. This article follows the lead of a number of case studies that examine the effects of funding in new democracies and propose new hypotheses fashioned to explain empirical realities that distinguish new democracies (Alexander, 1989; Burnell & Ware, 1998; del Castillo & Zovatto, 1998; Roper, 2002; Samuels, 2001; Treisman, 1998; van Biezen, 2000).

This article adds to the theory by focusing on the differences between states with and without public funding of parties and by distinguishing between states where at least some parties are publicly funded. Hypothesis 1 proposed here focuses on the differences between states with and without funding, suggesting that public funding increases the institutionalization of the party system. This hypothesis draws on the idea that public funding limits the pool of competitors by advantaging candidates that receive funding. Limiting new options, in turn, positively influences the institutionalization of the party system as the advantaged contenders engage in iterated interactions with voters, thereby increasing predictability in the system.

Hypothesis 2 discusses the marginal effects of increases in thresholds for access to funding between states that have public funding of parties. This hypothesis suggests that increases in barriers to public funding are positively

related to institutionalization of the party system. Preliminary tests of Hypotheses 1 and 2 strongly support the idea that there is significant difference in the institutionalization of party systems between states with and without funding of candidates. Measuring institutionalization of the party system through new party entry and stability of voter preferences, the analysis shows a significant increase in new party entry and greater instability in voter preferences where parties are not publicly funded. Tests of the differing effects of divergent thresholds for state funding were less conclusive. A linear relationship between funding and voter stability and new party entry did not emerge, but the tests suggest that interesting differences in institutionalization are associated with divergent barriers to state funding. Finally, the results and discussion of future research directions emphasize the importance of examining the effects of different amounts of public funding between states and the relationship between public and private funds.

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Jóhanna Kristín Birnir is an assistant professor of political science at State University of New York—Buffalo. She holds a Ph.D. from the University of California—Los Angeles. Her work centers on voters and party system developments in new democracies, with a focus on Eastern Europe and Latin America. She is currently revising a book manuscript titled The Ethnic Effect: The Effect of Ethnic Electoral Behavior on the Political Development of New Democracies.