“Money and Politics: Recent Reforms in Chile”

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“Money is a necessary component of the democratic processes, enabling representation and facilitating democratic competition. However, if the financing of political parties and electoral campaigns is not adequately regulated, money may also be the means for undue influence and policy capture by narrow private interests, resulting in further erosion of public trust in governments.”

It is difficult to find a better case for the importance the topic that convenes us at this event than the above statement, which opens the OECD’s 2016 report on Financing Democracy. Poor regulations and lack of enforcement of existing regulations of political finance lie at the heart of most of the corruptions scandals that have hit Latin America in recent years. Significant resources must be devoted to politics for democracy to work well. Yet this must be done in such a way as to create a level playing field in the political arena.

The task at hand is far from easy, making progress is hard and a number of countries have been moving in the wrong direction, prominent among them the United States.

In this presentation I briefly review Chile’s recent reforms of political finance and political party regulations. I will argue that these reforms are a major step in the right direction. I will also explain how these reforms came to happen in the wake of major corruption scandals.

Reforms

In early 2016, Chile’s Congress passed two major pieces of legislation, reforming campaign finance and the governance of political parties.

Before the reforms, there was no public money for political parties, which facilitated their capture by private interests, as confirmed by the political finance scandals of 2014-2015 that preceded (and made possible) the reforms. Following the reforms, there is significant public funding for political parties, in proportion to their representation in Congress. Also, the public component of campaign finance, in the form of a fixed amount of money per vote, increased by 33 percent in real terms with the reform of 2016. In exchange for public financing, a very unpopular measure with the public according to opinion surveys, the reforms considered major improvements in the governance, transparency, internal democracy and accountability of political parties.

A second change relates to transparency in political financing. Before the reform, campaign finance was particularly opaque. The main option chosen by private donors was that of “reserved contributions” where, in theory, neither the public nor the candidate knew the identity of the donors. As became clear with the political finance scandals of 2014-2015, in practice candidates knew who was making large donations and only the public was being left in the dark. Following the reforms of 2016, all significant contributions are public.
A third change is that following the reforms, only individuals are allowed to finance politics. Before the reforms, most financiers were private companies, whose donations were usually not communicated to shareholders and could be written off as a cost, thereby enjoying a large implicit public subsidy. No such tax advantage was available for individual donors.

The reforms also included new regulations on the size and places of political propaganda posters. In contrast with most developed countries, huge posters with candidate faces and slogans filled the streets, lampposts and electric cables of all major Chilean cities during electoral campaigns. This was uninformative, costly, dangerous and forced municipalities to spend important resources cleaning up after the election. New regulations limited the size and places where propaganda can be posted, as well as allowing citizens to report illegal posting to the electoral authority. The legislation prior to the reforms only allowed the presidents of political parties to report illegal postings and other violations of the electoral law, and no case was ever reported.

Finally, Servel, the electoral regulator, was granted more power and resources, together with constitutional autonomy, to enforce political campaign regulations and the new regulations for political parties. Also, sanctions for electoral law violations were increased and statutory limitations periods extended.

**Impact**

Two elections have taken place after reforms, the municipal election of 2016 and the presidential and congressional election of 2017.

During the campaign for the 2016 election, political parties complained about the lack of “electoral atmosphere” because of the ban on gigantic posters and the new regulation that limited places where campaign propaganda could be posted. A survey by Ipsos and Espacio Público following this election showed overwhelming public support for this measure and there were no complaints during the 2017 campaign.

Electoral turnout decreased and incumbents had a higher probability of being reelected in the 2016 elections. Some analysts attributed this outcome to the legal reforms while others argued it reflected the public voting with their feet in reaction to the corruption scandals. Turnout returned to pre-reform levels (and a bit higher) in the 2017 elections and incumbents did worse, laying the issue to rest.

Comparing the presidential elections immediately before and after the reforms (2013 and 2017) the number of donors increased from approximately 1200 in 2013 (mostly firms) to close to 8000 in 2017 (only individuals). Both average and median donations are down significantly. Also, the public component of campaign financing became more important following the reforms: it accounted for close to two-thirds of all resources, compared with little more than one-third before the reforms.

As far as new political parties, the new legislation led to the emergence of a new political party on the center-right (Evopoli) and various parties on the left, most important among them Revolución Democrática. Arguably, these new options were facilitated by the new rules and public financing for political parties.
How it was done

It is well known that corruption scandals offer a unique opportunity to reform political finance, political party regulations and, more broadly, overall governance. The scandals put the topics on the agenda and crucial political players lose, albeit temporarily, their veto power on reforms in these areas.

It is less well known how best to take advantage of these “windows of opportunity.” The Chilean reform experience following the political finance scandals of 2014-2015 and the influence peddling scandal involving the president’s son, offers an interesting case.

President Bachelet appointed a Presidential Anticorruption Commission, with 16 diverse and independent experts that proposed an ambitious agenda of reforms: 236 specific measures, most of them with unanimous support from the commission’s members, grouped in 21 thematic areas. The thematic areas included political finance, political party regulation, disclosure of interests, the return of civic education to schools, measures aimed at strengthening professionals and curbing corruption at the municipal level, and strengthening of the civil service. Following the commission’s report, more than a dozen pieces of legislation began making their way through congress, reflecting many (but not all) topics covered in the report. Building on the work of the commission, combined with the creation of an Anticorruption Observatory, civil society played an important role promoting these reforms1.

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1 For detailed accounts of Chile’s Anticorruption agenda, including the approval of more than a dozen of pieces of legislation between 2015 and 2018, only three of which are considered in this presentation, see Jorge Sahd and Cristián Valenzuela, “La Economía Política de la Agenda de Probidad y Transparencia en Chile”, CEIUC-BID, 2018; Ernesto Muñoz, “¿Pueden funcionar las comisiones asesoras anticorrupción? El caso de la Comisión Engel en Chile.” CAF, 2019 and Manuel Arís, Eduardo Engel and María Jaraquemada, Reformas Anticorrupción en Chile (2015-2017): Cómo se hizo para mejorar la democracia,” Espacio Público and Konrad Adenauer Stiftung, 2019.