Political Finance in India

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The escalating cost of elections in a wide array of countries around the world has given rise to grave concerns about the health of global democracy (Norris and Abel van Es 2016). The issue of money in politics, even under the best of circumstances, is challenging to address because money is an intrinsic part of politics where free and fair elections prevail. Parties require funds to mobilise their organisational networks, candidates must spend resources on contacting voters, and interest groups jockey to make contributions to political actors who might further their cause.

Given the inherent connection between money and democratic elections, it is impossible to fully disrupt this co-dependency; the best hope for democratic societies is to try to mitigate the negative externalities. Many prominent, long-standing democracies are struggling to do exactly that (Pinto-Duschinsky 2002).

India too has not been immune to the rising costs of elections. According to estimates arrived at by the Centre for Media Studies (CMS), the cost of India’s 2009 general election stood at around US$2 billion (Sheth 2009), grew to US$5 billion in 2014 (Gottipati and Singh 2014), and might have crossed as much as US$7 billion in the 2019 poll (Centre for Media Studies 2019). In India, as in many other developing nations, a large proportion of money spent on elections is undocumented and largely unaccounted for. In contrast, even in industrialised democracies that lack effective public finance regimes, campaign spending is generally regulated, such that serious infractions of campaign finance law are monitored, investigated and prosecuted (Kapur and Vaishnav 2018b).
In many democratic settings such as India where the regulation of political finance is weak or absent altogether, the influx of money in politics can instigate a troubling vicious cycle. When the costs of mounting a competitive campaign are steep, only well-financed candidates will be able to stand for office. Campaign finance, in turn, is often seen as an investment. Candidates who spend considerable resources out of their own coffers during elections have an incentive to engage in rent-seeking once in power to recoup their down payment, while contributors seek to ensure that their campaign donations are rewarded with favourable policies. Under such a scenario, the incentives for politicians to remain honest and upright are virtually non-existent.

This chapter evaluates India’s political finance regime and analyses how the approaches of political actors and bureaucratic institutions have evolved over time. Despite the existence of one of the world’s most powerful elections bodies – the Election Commission of India (ECI) – India has struggled mightily to counter the rising tide of money in politics (for historical reviews of the ECI, see Sridharan and Vaishnav 2017; Ahuja and Ostermann 2018). Several factors have collided to create, in essence, a perfect storm.

Politics in India have grown increasingly competitive and, as the party system has fragmented and moved further away from an era of one-party hegemony, the pressures on candidates and parties to increase election expenditures have grown. These pressures have been compounded by a growing population. Taken together, they have led to a more prominent role for wealthy candidates and corporate largesse, especially as party organisations have atrophied. The intense state regulation of the economy, even in the post-liberalisation era, has created a natural *quid pro quo* between politicians and firms subject to state regulation. This mutual dependence has entrenched rent-seeking through the exchange of policy or regulatory favours for
campaign contributions. Finally, the ECI and other referee institutions are not well-equipped to counter the deluge of political finance. While the ECI has been at the forefront of calls for greater transparency and more robust limits on both spending and contributions, it has also been hamstrung by legislative inaction and is overly dependent on judicial intervention.

The ground realities of political finance in India can be quickly summarised with a few stylised facts. First, there is a negligible degree of transparency insofar as political contributions are concerned. Firms and individuals who make contributions are reluctant to disclose their identity for fear of being victims of political retribution. Parties, for their part, evade disclosure requirements by exploiting legislative loopholes. In recent years, Parliament has passed new legislation that further entrenches this opaque regime. Second, when it comes to spending, parties and candidates disclose a small fraction of their overall outlays. Through the use of cash, in-kind assistance, and other off-the-books transactions, they have developed systems that allow them to adhere to reporting requirements while obfuscating the truth. Third, the accounts of political parties are not subject to any independent, third-party scrutiny. And parties have fought tooth and nail against new transparency measures, such as subjecting themselves to the Right to Information (RTI) Act. The RTI Act, enacted in 2005, empowers citizens of India to request information about the functioning of public authorities and to receive responses to those requests within a time-bound manner prescribed under the law.

The remainder of this chapter proceeds in three parts. Part I provides an overview of the structural, contextual factors that have led to the establishment of a suboptimal, corrupt equilibrium in managing the myriad challenges posed by political finance. Part II examines the basic components of political finance – contributions, spending, and the role of political parties –
and their evolution over time. Part III discusses the broader implications of India’s political finance regime for Indian political economy.

**Structural factors**

Before delving into the precise mechanics of political finance in India, this section outlines the broader political economy factors that structure the electoral marketplace in India. These factors explain both why the costs of elections have grown immensely over time as well as how opacity has come to characterise money in politics.

**Rising political competition**

The political landscape in India has changed considerably over the last seven decades. In the immediate post-Independence period, although dozens of parties contested elections and despite the fact it never attained a majority of the all-India vote, the Congress party was the undisputed pole around which politics revolved (Kothari 1964). By the late 1980s, the Congress finally lost its grip on power at the centre and its party system was characterised by fragmentation, multi-polarity and intense political volatility (Yadav 1999).

The increase in competition saw the average margin of victory in electoral races tumble, turnout (especially at the state level) rise, and incumbency advantage fall by the wayside (Vaishnav and Hintson 2019b). In India’s 2014 general election, the average margin of victory in a parliamentary constituency was around 15 per cent. To place this in comparative perspective, the average margin of victory in the 2016 US congressional race was 37 per cent.²

The pressures of competition raised the cost of elections both because there were numerically more candidates and parties in the fray, but also because political actors searched for
any financial advantage that might place them on top. Furthermore, it was not simply that state and national elections grew more competitive, but also that there were many more elections to be had. The advent of *panchayati raj* in the mid-1990s ushered in a new, three-tiered system of elections that created nearly three million new elected positions across the country virtually overnight (Kapur and Vaishnav 2018b).

*Ballooning population*

As competition has grown, so too has the overall size of the population and, by extension, the size of the electorate. In 1952, India’s electorate stood at 170 million; by 2019, it had grown to nearly 890 million. As the number of voters rose in a given constituency, parties and candidates increased their campaign outlays to keep up. As Vaishnav and Hintson (2019a) have shown, Indian Members of Parliament (MPs) represent vastly larger numbers of people than their peers in literally every other democracy. The average Indian MP represents 2.5 million residents — over three times the number represented by members of the House of Representatives in the US, which ranks second.

*Weakening party organisations*

As the political system was opening up, party organisations were suffering an acute crisis of credibility. During its heyday, the Congress party resembled a well-oiled machine that was deeply embedded in society (both horizontally and vertically) and able to mediate citizen interactions with the state. Although scholars have questioned the extent of the Congress’ professionalisation (Weiner 1967), almost no one disputes that its organisation withered away under the domineering rule of Indira Gandhi in the late 1960s and early 1970s. By the 1980s,
most political parties came to resemble family-owned firms led by a charismatic leader or coterie of family relations who governed their parties by feudal whim (Hasan 2010; Chandra 2016). The underlying weakness of party structures meant that virtually all parties were thrust into the embrace of well-endowed candidates and moneyed interests who could cover the costs of exceedingly costly campaigns.

**Economic transformation**

India’s political transformation was mirrored by drastic changes to the economic system. After Independence, India adopted a "dirigiste" economic system that combined a planned economy at home with an autarkic approach to trade and foreign relations externally. This Nehruvian model of development was premised on the notion that a poor, unequal and illiterate India could not rely on market forces alone to provide a better life for its worst off (Joshi 2016). Under Nehru’s daughter and successor Indira Gandhi, this system descended into what came to be known as the ‘License Raj’ – under which the government opportunistically manipulated its policy and regulatory levers of power to extort private businesses and ensure political loyalty. After the period of the Emergency when Gandhi returned to power, she and then her successor – son Rajiv Gandhi – pursued modest pro-business policies that removed some of the constraints domestic business had long laboured under. In 1991, these shackles came off more dramatically as India was compelled to liberalise in the wake of a painful balance-of-payments crisis (Rodrik and Subramanian 2004; Kohli 2012).

While liberal reforms continued apace, the heavy-handed role of the state did not disappear, but instead merely changed form. As Chandra (2015) has argued, in the post-liberalisation era the state’s imprint on the economy has been felt in multiple ways. While India
abolished licensing in old areas in which the private sector had been active, the state simultaneously created a new system of licenses that regulate the entry of the private sector to newly de-reserved sectors (Kapur and Khosla 2019). Second, the state maintained its role as a critical supplier of inputs to the private sector, such as land, raw materials and credit. What this meant is that politicians could still trade favours in exchange for political funding – especially in sectors of the economy where the imprint of the state remained ever-present.

Mixed regulatory and enforcement capacity

A fifth structural factor that has shaped India’s campaign finance regime is the state’s anemic regulatory and enforcement capacity. The ECI is the agency responsible for supervising elections and it was blessed with both independence from the executive and a broad remit in its constitutional provisions.\(^3\) The enabling legislative acts that underpin much of the ECI’s actual operations are the Representation of the People Act (RPA), 1950 and 1951, but there are broadly two problems with its legislative remit. First, the role of money in politics has evolved drastically since the time of India’s founding while its legal foundations have adjusted more slowly. Second, the ECI is reliant on Parliament to update laws governing political finance. This means that the government of the day can defer action that would modernise the ECI’s campaign finance powers.\(^4\)

To compound matters, the ECI must ultimately rely on India’s rule of law institutions to investigate and prosecute cases of electoral malpractice. At the end of the day, the ECI also faces constraints in monitoring the varied aspects of electioneering. For instance, its mandate to supervise elections begins once it announces election dates and triggers the onset of the ‘Model Code of Conduct,’ but it has no power to police infractions before that time.\(^5\) Gaps in
enforcement, therefore, have often hamstrung the ECI’s ability to effectively police violations of campaign finance law.

**Evolution of India’s political finance framework**

This section reviews the major features of political finance in the Indian context: contributions, expenditure and the regulation of political parties.

**Contributions**

In the early days of the republic, the Congress relied heavily on membership contributions to fund its operations. The party was not averse to accepting help from business houses, but it endeavoured to keep an arm’s length distance from corporate interests – least in the public eye (Malik 1989). This attitude shifted rapidly in the post-Independence era as membership resources failed to keep pace with the party’s ambitions. The Congress came to rely heavily on corporate contributions to fund increasingly competitive elections. These transactions carried an implicit (and often explicit) *quid pro quo*: in exchange for campaign cash, the government would provide regulatory and policy favours to private firms. As the License Raj – the thicket of government licenses, permits and clearances that regularly snarled private entrepreneurship – became further entrenched, the nature of this exchange became more extortionary with private business compelled to ‘donate’ or risk losing their competitive advantage (Kochanek 1987).

A key inflection point occurred in 1969 when Prime Minister Indira Gandhi banned corporate donations to political parties. Gandhi used the pretext of corruption to justify the move, but her motivations were strictly political: the Congress was facing a growing threat on its right
flank from the conservative Swatantra party as well as the Jana Sangh (Jha 1993). Thus, the ban was a political tool to curb competition, but its effects were systemic. In the absence of instituting any kind of public funding for elections, the ban simply pushed corporate financing of parties underground (Sridharan and Vaishnav 2015). The ban also coincided with new import-substitution industrialisation (ISI) measures such as the nationalisation of the banking, insurance, coal, and petroleum sectors; stringent controls on foreign investors; and new ‘anti-monopoly’ provisions that further tightened the state’s grip on the commanding heights of the economy. The upshot was the consolidation of a nexus between black money and politics whereby the Congress remained at a distinct advantage vis-à-vis its emerging rivals.

In 1985, Prime Minister Rajiv Gandhi re-legalised corporate donations (firms were allowed to contribute up to 5 per cent of their average net profits over the three prior years) but the damage had been done. The routinised practice of making non-transparent donations to political parties in exchange for special dispensations had become too deeply entrenched for either side to deviate from past practice. Firms especially had an incentive to give on the sly because this allowed them to evade retribution if their preferred party failed to come to power (Sridharan and Vaishnav 2016).

In 2003, Parliament passed a set of electoral reforms, including making corporate donations 100 per cent tax deductible for the first time. The law also made it mandatory for all parties to report itemised donations of Rs. 20,000 or more, introducing a small sliver of transparency into the murky world of political giving. Corporations were also required to disclose their political giving on their annual profit-and-loss accounts (ibid).

This was the state of affairs the Narendra Modi government inherited when it came to power in 2014, but it decided to leave its own stamp on India’s political finance regime. In 2017,
Finance Minister Arun Jaitley introduced several key provisions into the Finance Bill that were successfully passed into law. First, the government instituted a new ceiling on cash donations to political parties of Rs 2,000 in an effort to squeeze black money contributions. Somewhat mysteriously, however, the government did not lower the corresponding mandatory disclosure threshold to the new Rs 2,000 level (Sridharan and Vaishnav 2018).

More importantly, the government also introduced a new modality of political giving known as ‘electoral bonds.’ These bonds are bearer bonds that private entities can purchase from the State Bank of India and transfer to the registered bank accounts of political parties. Electoral bonds provide a legal avenue for entities to contribute to political parties through legitimate banking channels, while also protecting the anonymity of both the donor and the recipient (Vaishnav 2019a).

In conjunction with electoral bonds, the government made two additional significant alterations to campaign finance law. The first dropped the cap on corporate giving (which from 2013 stood at 7.5 per cent of a corporation’s average net profits over the previous three years), while the second eliminated the provision that firms declare their political contributions on their annual profit and loss statements (Vaishnav 2019).

Although the regulator has access to a digital paper trail of electoral bond transactions, this information is expressly hidden from the public. After formally notifying the bond scheme in 2018, the landscape of political finance-giving changed dramatically. Three startling facts emerged from an analysis of the income statements of national parties covering fiscal years 2018-19 (Association of Democratic Reforms 2020). First, two-thirds of parties declared income originated from ‘unknown’ sources. This is to say nothing of undeclared sources. Second, the lion's share of unknown income came in the form of electoral bonds, a legal instrument that gave
legitimacy to undisclosed giving. Third, electoral bonds have massively benefitted the ruling Bharatiya Janata Party (BJP). The BJP’s unknown income in aggregate was greater than 1.5 times that of the other five national parties combined.\(^8\)

The Modi government also made a minor, yet critical alteration to the law that potentially opened the door to foreign funding of elections, which had previously been outlawed. In 2014, the Delhi High Court found both the BJP and the Congress guilty of accepting donations from multiple foreign corporations. To evade punishment, the two parties joined hands in 2016 to amend the Foreign Contribution (Regulation) Act 2010 (FCRA) in order to retroactively redefine what a ‘foreign source’ was under the law. Ironically, the legal maneuver was only a partial fix; several of the foreign donations the BJP and Congress received pre-dated 2010, the year the amended FCRA legislation came into force. Thus, in 2018, Parliament passed a second retrospective amendment – this one going back to 1976, the date the original FCRA law was enacted (Vaishnav 2018).

Due to the way in which corporate giving has evaded disclosure, it is difficult to document the sectors from which contributions emanate. However, some creative research has uncovered evidence of an apparent connection between a sector’s regulatory intensity and its ‘rent-extraction’ potential (Sukhtankar and Vaishnav 2015). For instance, Kapur and Vaishnav (2018a) used monthly fluctuations in state-level demand for cement (an indispensible ingredient in most real estate and construction projects) to identify an election-timed sudden drop in cement consumption in states experiencing elections – an effect they suggest is connected to builders temporarily redirecting available liquidity to political campaigns. Related work by Sukhtankar (2012, 2015) has shed light on the links between two other highly regulated sectors—sugar and telecommunications — and the illicit financing of politics.
Another important implication follows from this: as much as the popular narrative over corporate funding revolves around the country’s top business houses, the reality appears somewhat different. The most numerous corporate supporters of political parties are likely not the biggest titans but what Ninan (2016) refers to as firms operating at the ‘mezzanine’ level. In his words, ‘The truth is that the biggest source of political funding is probably government contracts involving individually modest sums, and middle-level businessmen whose names would not ring a bell.’

To be sure, corporations are not the only source of political contributions. A second major source to emerge in recent decades is self-financing candidates. While we lack historical data, since 2003 the ECI has mandated that candidates to state and national office submit affidavits at the time of their nomination detailing their educational qualifications, financial assets and liabilities, and criminal records. While most parties initially resisted the mandate, the Supreme Court affirmed the ECI’s action in a landmark 2003 judgment (Sen 2012).

The publicly available data, compiled and analysed by the good governance watchdog Association for Democratic Reforms (ADR), reveal a number of striking findings. First, between 2004 and 2019, the share of crorepati (whose self-disclosed assets were worth at least Rs. 1 crore) elected to Parliament grew from 30 per cent in 2004 to 88 per cent in 2019.9 Second, wealthy candidates have a significant electoral advantage. Candidates contesting Lok Sabha elections who belong to the top quintile (richest 20 per cent) of candidates are more than 20 times as likely to win election than their peers belonging to the lowest quintile (poorest 20 per cent) (Vaishnav 2017). There is an endogeneity issue here insofar as competitive parties are disproportionately more likely to give wealthy candidates a party ticket. However, even after controlling for a party’s competitiveness, Sircar (2018) finds that the wealthier of the two most
competitive candidates is *still* more likely to win election to Parliament. Third, the growth of moneyed candidates is causally related to the rise in criminality in politics. Empirical evidence from state and national elections shows that parties recruit candidates associated with criminal wrongdoing, at least in part, due to their ability to act as self-financing candidates (Vaishnav 2017).

The term ‘self-financing’ is a catchall phrase. In the narrowest sense, it connotes candidates who can cover the costs of their own campaigns, thereby liberating precious party resources for other purposes. But, if one takes a broader view, self-financing candidates can also pay parties for the privilege of running on their symbol (i.e., ‘ticket buying’), subsidise lesser-endowed candidates belonging to the party, and/or contribute to rent-seeking activities undertaken by party bosses.¹⁰

Just as parties rely on a diverse array of sources for political contributions, so too do individual candidates. Survey evidence from three north Indian states finds that there is tremendous variation in the sources of campaign finance based on the tier of politics in question (Bussell 2018). Across all levels – from the *panchayat* president to Member of Parliament (MP) – virtually all candidates report relying on personal resources to cover campaign costs – but politicians at the lowest levels are substantially more dependent on their own resources, relative to contributions from other types. However, Bussell also finds that national MPs and state-level Member of Legislative Assemblies (MLAs) are substantially more likely to report receiving funds from their party than their lower-level colleagues. Lower-tier politicians also appear to have scarce access to contributions from either the private sector or government bureaucrats.¹¹

*Expenditure*
Under the RPA, 1951, there are strict limits on how much candidates can spend during their election campaign. Over the years, these limits have been revised upward to take into account factors like inflation and population growth. In 2019, parliamentary candidates could spend Rs. 70 lakh while candidates to state assembly elections could spend Rs. 28 lakh. Candidates are required to submit detailed expenditure statements to the ECI within 30 days of the conclusion of the campaign. The monitoring of candidate expenditure has been a preoccupation of the ECI, and yet it has proved extremely difficult to police violations of established limits.

One major loophole in the candidate expenditure-ceiling framework is the exemption of spending by political parties. From the outset, there was ambiguity as to whether spending carried out by parties and independent supporters on behalf of candidates must be accounted for on candidates’ ledgers. In 1974, the Supreme Court ended this ambiguity by ruling that the two could not be de-linked. In less than a year, the Indira Gandhi government introduced Explanation 1 to Section 77(1) of the RPA, which explicitly stated that third-party spending on behalf of the candidate would not count toward the candidate ceiling. This blew the old loophole wide open, making a farce out of any candidate spending limits. In 2003, legislative fixes tightened, but did not eliminate, this loophole; they merely exempted third-party spending on behalf of a candidate as long as that money was devoted to propagating the party’s overall programme as opposed to supporting any particular candidate by name.

The magnitude of reported party spending is significant. For example, in 2018-19, India’s six national parties collectively spent nearly Rs. 1,600 crore, according to their disclosures to the ECI. On its own, the ruling BJP spent around Rs. 1,000 crore, which is more than its five national rivals combined; 80 per cent of the BJP’s spending fell under the heading of election

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expenditure and party propaganda, with administrative and personnel costs accounting for the balance (Association for Democratic Reforms 2020).

The net result is not surprising: spending limits on paper bear little resemblance to the spending undertaken in practice. This is not an India-specific challenge; many developing democracies with patchy enforcement mechanisms suffer the same fate. Indeed, in Brazil, this reality is referred to as ‘the rule of ten,’ or the idea that actual campaign expenditures are likely ten times larger than those officially reported to electoral authorities (Gingerich 2014). For instance, in the 2014 Lok Sabha election, victorious candidates spent, on average, just 58 per cent of the allowable limit. This is despite the fact that politicians routinely complain that the proscribed spending limits are laughably low. These official expenditure figures, suffice it to say, strain credulity. There is no systematic data on ‘actual’ spending, although there is copious anecdotal evidence. BJP MP Gopinath Munde publicly revealed that he spent Rs. 8 crore in his 2009 parliamentary race (when the actual limit was Rs. 40 lakh) (Chandavarkar 2013).  

Chauchard (2018) adopts an ethnographic approach to studying election expenditure in an urban Mumbai locality, where he uncovers startling amounts of spending in both municipal and state assembly elections. Candidates in the former spent between Rs. 60 lakh and Rs. 1 crore, while those in the latter spent between Rs. 1 and 16 crore. Vaishnav (2017) reports that a state assembly candidate he followed (from a regional party) in Andhra Pradesh’s 2014 assembly spent between Rs.10-12 crore on his election, with his party’s parliamentary candidate spending around twice as much.

The mind-boggling sums cited in the literature beg the question: on what are candidates spending such vast quantities of money? Chauchard (2018) has argued that while the source of campaign funds may be predominantly illicit, much of the spending that occurs is on mundane,
'politics-as-usual’ expenses such as fees for meeting/rally/procession attendance, salaries and meals for political workers, and feasts for constituents.

Of course, a sizeable chunk of election expenditure is also allocated for more questionable purposes. Chief among the more nefarious categories are handouts destined for so-called ‘vote-buying.’ Indeed, there is a vast literature on vote-buying drawing on evidence from numerous geographies, most prominently Latin America (Stokes 2005). While the ‘vote-buying’ nomenclature is regularly deployed in the Indian context, it is not clear that the foundational assumptions of the practice actually pertain in India (Auerbach et al. 2020). For instance, there is little evidence of a straightforward quid pro quo exchange in which voters trade their vote for material inducements. Schneider (2019) has shown that brokers in Rajasthan face great difficulty in determining how voters there are actually vote on election day. Chauchard (2020) goes even further, suggesting that many politicians do not even bother to monitor votes given the impediment of the secret ballot.15

A more accurate term for the regular distribution of inducements on the eve of voting, argue Bussell (2018) and Chauchard (2018), is ‘gift giving.’ Candidates hand out a range of items, from cash to alcohol to homes for brick construction, as gifts that they hope – but cannot guarantee – will sway voters’ minds. Why politicians make such lucrative payments when they knowingly cannot consummate an ironclad contract with voters is something of a puzzle. The literature suggests several possibilities. Björkman (2014) argues that this largesse provides a signal of a candidate’s electoral viability and credibility about future clientelistic policies.16 In contrast to this informational argument, Chauchard (2018) posits that handouts are akin to advertising: they are meant to neutralise the actions of opponents, rather than affirmatively enhance their own reputation. This, in essence, is a standard prisoner’s dilemma: distributing
handouts does not guarantee victory, but not distributing handouts means you will likely be punished. In this context, the only rational response of an office-seeking politician is to dole out resources.

Estimating what proportion of a candidate’s overall expenditure handouts constitute is inherently difficult. In three north Indian states, Bussell (2018) finds that more than half of all respondents – and upwards of 80 per cent among the highest-level politicians – perceive that their political peers feel pressure to give gifts at the time of elections. When asked to estimate what share of voters in their constituency receive gifts, politicians across tiers of governance claim that the share is at least one-quarter and, in some cases, upwards of one-third. Chauchard (2018) reports that in one urban Mumbai setting, politicians report devoting anywhere between one-fifth and two-thirds of their election expenditure on handouts and gifts on the eve of elections. Given this range of responses, it seems fair to conclude that gift-giving represents a major category of election expenditure but it would be inaccurate to simply equate all election expenditure to illegal inducements to voters. Surana (2020) adopts a different approach to measuring the extent of election-linked handouts. Using cross-sectional, time-series data from government consumer expenditure surveys over the period 1994-2012, she exploits India’s staggered state assembly election cycle to quantify consumption shocks to households in poll-bound states. She finds that the poorest 20 per cent of households are the primary targets of electoral handouts and, in addition, that elections have a significant positive effect on consumption in these households – especially on items such as cereals, eggs, fish, meat and alcohol.

Political parties
As noted above, political parties reside at the heart of the political finance game. Although there is a tendency for parties to seek out self-financing candidates in order to lessen the strain on their coffers, parties – especially major national and regional parties – are also spending vast sums on campaigns. This expenditure is directed both toward subsidising candidates who lack adequate resources as well as building their own party brand.\textsuperscript{17}

On the one hand, political parties are subject to greater disclosure than ever before. However, what is deeply contested is the credibility of those disclosures. On the heels of the passage of the 2005 RTI Act, ADR requested that the Central Information Commission (CIC) – the apex body responsible for overseeing the implementation of the Act – make the income tax returns of all political parties available for public scrutiny. Parties opposed the plea, but the CIC rebuffed them in a 2008 ruling that mandated all parties publish their income and expenditure details going back to 2004-05. In 1996, in response to a public interest suit, the Supreme Court ruled that political parties were required to submit their annual income tax and wealth returns.\textsuperscript{18} However, prior to the CIC’s 2008 ruling, parties were not required to make these filings public.

Although the CIC made parties’ tax returns public for the first time, the body did not insist that parties submit financial statements scrutinised by an independent auditor. What this meant in practice is that parties merely needed to get an in-house chartered accountant to sign off on their accounts. As a result, their accounting needs to be taken with a giant pinch of salt. The Modi government aimed to marginally tighten the provisions by mandating that parties submit their income tax returns within the time prescribed under law or risk losing their tax-exempt status. Yet, it too shied away from more sweeping action on the audit front.

Civil society’s struggle to subject party accounts to greater sunlight is ongoing. In 2013, the CIC ruled that parties can be considered ‘public entities,’ and, as a result, should be subject to
the RTI. The matter was referred to the Supreme Court after the CIC threw up its hands in frustration after having failed to compel representatives of India’s six national parties to respond to its order. While there has been no resolution in the case, proponents of greater transparency have urged the Court to side with the CIC, pointing out that political parties receive explicit state subsidies (in addition to benefitting from tax exemptions). While India does not have a public financing system, since the late 1990s, government has granted parties free airtime on state-owned television and radio networks. The subsidy applies to both state and national elections and the amount is based on a formula that takes past electoral performance into account (Sridharan and Vaishnav 2018: 22-23).

In sum, the finances of political parties remain something of a black box. When it comes to spending, there are no official limits on party expenditure. As long as parties are not explicitly spending money on behalf of a given candidate, their expenditure does not fall under the candidate spending limits. When it comes to contributions, limits to corporate giving have been eliminated and the introduction of electoral bonds has created a legal way for corporations and individuals to anonymously give an unlimited sum of money to political parties. While parties do disclose their finances, these disclosures are not subject to third-party audit. The ECI has long proposed that party accounts be subject to independent scrutiny either by the Comptroller and Auditor General (CAG) or a slate of respected auditors recommended by the CAG. But the ECI contends that it requires legislative authorisation for such a move.

**Implications for India’s political economy**

India is trapped in a suboptimal equilibrium when it comes to political finance. The funding of politics and elections is widely considered to be at the root of many of the country’s
corruption woes and yet it is up to the politicians who benefit from the status quo to reform their own domain. Civil society, the judiciary and the ECI have been ardent proponents of political finance reform but collectively their efforts have not been sufficient to significantly undo the perverse incentives embedded throughout the system. Between the early 2000s and 2017, there was a steady trickle of marginal victories that helped instill a modicum of transparency into the system, but recent changes – the introduction of electoral bonds, the elimination of caps on corporate giving, the diminution of corporate reporting requirements, and the opening of new pathways to foreign money – have wiped out many of these gains.

In reflecting on this state of affairs, it is worth considering the larger implications for India’s political economy. First, access to personal wealth or wealthy networks has become a non-negotiable requirement of contesting office, especially at the state and national levels. Simply put, candidates who cannot meet a certain threshold of financial resources have very little chance of winning an election. According to the data from candidate disclosures, this window has narrowed even further. Therefore, money has become a cardinal determinant of political selection (Vaishnav 2014).

Second, the advent of electoral bonds – which legitimises the opacity that had earlier prevailed in political giving – practically invites *quid pro quos* between well-endowed supporters and office holders. At present, it is possible for virtually any entity to donate an unlimited sum of money to a political party without having to disclose a single rupee and be rewarded with favourable policy decisions. Given that opacity is central to the design of this new political funding instrument, it will be impossible – not just difficult – for citizens and voters to connect the dots.
Third, when candidates invest such a large sum of their own resources into campaigns, they face every incentive (and few constraints) to engage in rent-seeking behaviour once in office. Even public-spirited individuals who win an election find it difficult to maintain such values when in office. A few studies from India have rigourously documented the financial rewards accruing to officeholders, demonstrating the lucrative nature of incumbency (Bhavnani 2012; Fisman, Schulz and Vig 2014). While the documented gains are not astronomical, they are likely downward-biased given that they are based on episodic self-disclosures.

Fourth, to the extent that money acts as a barrier to office, it can further entrench economic inequality. While there is no systematic evidence from India as yet, studies from other democracies present compelling evidence that the wealth barrier creates a vicious cycle in which inequality and public policies reinforce one another. For instance, studies from the US have shown that the presence of wealthy lawmakers results in the adoption of public policies that respond more forcefully to the preferences of the financially well-off (Gilens 2012).

Finally, the profusion of money in politics raises larger concerns about the legitimacy of democracy. If the public perceives that elections can be bought and sold, this could erode public trust in democratic institutions. If the public believes that there is no level playing field, that the ‘game is rigged’ or their voice does not matter, this could lead to populism, demagoguery and eventually the rise of authoritarianism.
References


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1 While this distinction between developed and developing democracies still pertains, it is worth pointing out that it is gradually eroding as advanced countries like the United States adopt measures that increase, rather than curb, opacity in political giving.

2 Since 2014, the Indian political scene has experienced a return to one-party dominance, insofar as the BJP has now firmly replaced the Congress as the central gravitational force in state and national politics.
While this has resulted in a decline in political competition, elections in India still remain far more competitive than in most other democracies.

3 The ECI has long enjoyed great legitimacy in the eyes of the public. According to a 2008 nationwide survey, nearly 80 per cent of respondents expressed a high degree of confidence in the Commission (second only to the Indian Army) (SDSA Team 2008).

4 This also implies that Parliament can pass legislation that might actually work against the ECI’s objective of maintaining a level playing field.

5 The Model Code of Conduct is a voluntary set of norms and principles, not expressly codified in law, that guides the conduct of candidates, parties and incumbent governments during elections (Majeed 2011).

6 Using rising corruption as the pretext for banning corporate donations was politically savvy, especially since the business-politics nexus was earlier highlighted in the report of the government-sponsored Santhanam Committee on Prevention of Corruption (1964).

7 What this meant in practice is that any individual or corporation could still make cash donations of less than Rs. 20,000 because parties were not required to keep a record of each individual transaction below that threshold. Although cash donations were capped at Rs. 2,000, there is really no way for regulators to know, for instance, whether a Rs. 5,000 contribution was made by cash, cheque or digital payment if disclosure is not mandatory.

8 An extensive investigation by the journalist Nitin Sethi, based on documents obtained under the RTI Act, revealed that the implementation of the electoral bond scheme was also plagued by a series of questionable government decisions that likely benefitted the ruling party (see Vaishnav 2019 HuffPost for a summary).

9 Data is available on ADR’s online portal: www.myneta.info.

10 The practice of aspiring candidates paying political parties for a nomination is known as ‘ticket buying.’ If party bosses can sell party tickets to the highest bidder, they can create new sources of revenue for the party. For more on the practice, see Farooqui and Sridharan (2014).

11 Interestingly, Bussell (2018) also asks politicians about their perceptions of the ‘most common sources’ of election financing, allowing them to speak not necessarily about their own experiences but those around them. The modal response among MPs and MLAs, by a wide margin, is ‘black money’ followed by
individual donations and personal income. This relationship reverses for lower-level panchayat officials, who rely more on individual donations and comparatively less on black money.

12 There are slight variations by state and constituency status (for instance, expenditure limits are lower in seats reserved for Scheduled Castes and Scheduled Tribes than in the open or ‘general’ seats).

13 In 1996, the Supreme Court ruled that party expenditures would be included in candidates’ expenditure statements if parties failed to file audited income and expenditure accounts. This provision had few teeth since parties could continue to submit accounts that were approved by handpicked auditors (Sridharan and Vaishnav 2018).


15 The ECI introduced electronic voting machines (EVMs) in the late 1990s. Research suggests that EVMs reduced electoral fraud and boosted competition and political participation (Debnath, Kapoor and Ravi 2017).

16 Björkman (2014) argues that election-time cash distribution also helps secure the loyalty of important local party workers, brokers, fixers and other intermediaries whose support can help swing an election. While these distribution mechanisms are not failsafe, they are nevertheless indispensable. Based on evidence from both urban Mumbai and rural Bihar – two very different settings – Björkman and Witsoe (2018) suggest that cash distribution is not about buying votes, but about signaling a candidate’s ‘translocal’ connections.

17 Collins (2018) uncovers a unique model of party financing he refers to as ‘adoption,’ based on his ethnographic fieldwork in Tamil Nadu. In that state, he finds that small parties such as the Viduthalai Chiruthaigal Katchi (VCK) – minor, pro-Dalit political party – cannot amass the kind of resources needed to contest elections on its own. Therefore, each election cycle the VCK seeks to be ‘adopted’ by one of the two major Dravidian parties.

18 In theory, parties had been required to file their income tax returns since 1979 in order to avail of tax exemptions, but few have done so in practice.