RESEARCH ARTICLE

Political Finance Regulation and Democratic Quality: A Cross-National Analysis of 160 Countries

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Abstract

Despite sustained policy debate about money in politics, systematic cross-national evidence on whether political finance regulation actually relates to democratic quality remains limited. This study asks whether regulatory comprehensiveness is associated with liberal democracy, which regulatory dimensions matter most, and whether the rule of law moderates these relationships. Drawing on three datasets, the International IDEA Political Finance Database, the Varieties of Democracy project (V-Dem v16), and the Worldwide Governance Indicators, the study constructs a composite Political Finance Regulation Index from five sub-dimensions covering 45 binary items across 160 countries. OLS regression with HC3 robust standard errors is used to test three hypotheses derived from democratic theory, institutional economics, and public choice theory. Results show a significant positive association between regulatory comprehensiveness and democratic quality that persists after controlling for rule of law and political stability ($\beta = 0.147$, $p < 0.01$, $R^2 = 0.774$). Sub-index decomposition reveals that transparency provisions carry the strongest individual association with democratic quality, while donation bans and public funding show no independent effect. Split-sample analysis suggests that regulation matters somewhat more in countries with weaker institutional frameworks. The null finding on corruption indicates that regulation operates through democratic mechanisms rather than as a direct anti-corruption tool. These results imply that policymakers should prioritise transparency infrastructure, mandatory disclosure, public reporting, and donor identification, over expanding bans or spending limits, and that such investments are most consequential in transitional democracies where institutional quality is still developing.

Keywords: political finance regulation; democratic quality; transparency; cross-national analysis; liberal democracy measurement; rule of law

JEL Classification: D72; K16; H83; P16

1. INTRODUCTION

Money has always shaped politics, and politics has always sought to shape how money flows through the political process. Every democratic system confronts a version of the same dilemma: campaign finance is essential for political competition, yet unregulated money risks converting economic inequality into political inequality. The tension is structural rather than incidental, and every regulatory response involves trade-offs that affect not only who wins elections but what kind of democracy emerges from the electoral process.

The regulatory landscape is remarkably varied. Some countries impose blanket bans on corporate and foreign donations, cap individual contributions, and require detailed public disclosure of all political funds. Others operate with minimal regulation, relying on electoral competition and media scrutiny to discipline the role of money in politics. Between these poles lies a spectrum of partial regulations, exemptions, and enforcement gaps that makes comparative analysis both necessary and methodologically demanding. The International IDEA Political Finance Database, covering 181 countries and 58 distinct regulatory questions, provides the first comprehensive cross-national mapping of this regulatory architecture.

What remains less clear is whether regulatory comprehensiveness matters for democratic outcomes. A country may have extensive regulations on paper and weak enforcement in practice; alternatively, informal norms and media oversight may substitute for formal rules. The question of whether more regulation correlates with better democratic quality cannot be answered through case studies alone. It requires a systematic cross-national approach that accounts for institutional context, and particularly for the role of the rule of law, which determines whether regulations function as intended or remain declarative commitments without operational consequence.

This study addresses three research questions. First, is there a statistically significant association between the comprehensiveness of political finance regulation and the quality of liberal democracy across countries? Second, which specific dimensions of regulation, donation bans, contribution limits, public funding, spending rules, or financial transparency, carry the strongest association with democratic quality? Third, does the rule of law moderate this relationship, such that regulation matters differently in countries with strong versus weak institutional frameworks?

The analysis draws on three datasets. Political finance regulation is measured using the IDEA Political Finance Database, from which a composite regulation index and five sub-indices are constructed. Democratic quality is measured using the V-Dem Liberal Democracy Index (v2x_libdem), averaged over 2018–2023. Institutional quality is captured through the Worldwide Governance Indicators (WGI), particularly the Rule of Law and Political Stability dimensions. The sample comprises 160 countries with complete data across all three sources.

The contribution is threefold. Methodologically, the study constructs the first composite political finance regulation index that can be used in cross-national regression analysis. Empirically, it provides evidence on which regulatory dimensions matter most for democratic quality. Conceptually, it tests the interaction between formal regulation and institutional capacity, addressing a gap in the literature on regulatory design and democratic governance. The findings carry implications for the design of political finance frameworks in both emerging and established democracies, and for the broader question of how formal institutions interact with informal governance structures.

The article proceeds as follows. Section 2 reviews theoretical foundations and prior evidence. Section 3 describes data, variable construction, and econometric strategy. Section 4 presents results. Section 5 interprets findings and discusses limitations. Section 6 concludes.

2. LITERATURE REVIEW

2.1. Money in politics: theoretical perspectives

The regulation of political finance sits at the intersection of democratic theory, institutional economics, and public choice theory. Democratic theory provides the normative foundation: if political equality is a precondition for legitimate governance, then the unchecked influence of private wealth on political decisions undermines the democratic contract (Dahl, 1971). Institutional economics adds an explanatory layer by treating regulatory frameworks as formal rules that structure incentives, constrain actors, and reduce transaction costs in political markets (North, 1990). Public choice theory, by contrast, offers a more sceptical perspective: regulation may be captured by the very actors it is intended to constrain, creating compliance costs for smaller players while leaving dominant interests largely unaffected (Stigler, 1971).

These perspectives generate different predictions about the effects of political finance regulation. If democratic theory is correct, more comprehensive regulation should reduce the influence of private money, level the playing field, and improve democratic quality. If public choice theory holds, regulation may have unintended effects, driving money into less visible channels, favouring incumbents, or increasing the relative influence of organised interests capable of navigating complex regulatory environments.

The empirical record is mixed. Ohman (2014) provides a comprehensive framework distinguishing between regulatory intent and regulatory outcomes, emphasising that the same formal rules produce different effects depending on enforcement capacity and political culture. Hamada and Agrawal (2025), in their analysis of political finance in the digital age, argue that regulatory frameworks designed for traditional campaign finance are increasingly inadequate for the online environment, where spending is harder to trace and attribution is more easily obscured. These studies caution against simple assumptions about the relationship between regulatory comprehensiveness and democratic outcomes.

2.2. Political finance regulation: what gets regulated?

The IDEA Political Finance Database organises regulations into four categories, each addressing a distinct channel through which money influences politics (International IDEA, 2023). Bans and limits on private income regulate the supply side, who can donate, how much, and through what channels. Public funding provisions address the demand side, reducing candidates' and parties' dependence on private sources. Spending regulations cap the total volume of money in campaigns, while reporting and oversight requirements create transparency mechanisms that enable public scrutiny.

Each category has a different theoretical rationale and a different empirical track record. Donation bans on foreign, corporate, or anonymous sources aim to prevent specific types of influence that are considered particularly corrosive, external interference, corporate capture, and untraceable flows. Contribution limits aim to reduce the intensity of individual donor influence without eliminating private financing altogether. Public funding seeks to level the playing field and ensure that parties without access to wealthy donors can compete. Transparency requirements, rather than constraining any particular flow of money, aim to make all flows visible, enabling voters and oversight institutions to assess the relationship between money and political behaviour.

Research on the individual effects of these mechanisms has produced uneven results. Scarrow (2007) finds that public funding is more common in newer democracies, suggesting that it serves a regime-consolidation function rather than a purely competitive one. Norris and Abel van Es (2016) argue that the effectiveness of transparency requirements depends heavily on the capacity of media, civil society, and oversight institutions to process and act on disclosed information. Vasile and Croitoru (2021) emphasise the importance of financial reporting standards as a mechanism for accountability, noting that transparency without standardisation generates noise rather than clarity. This aligns with the broader literature on audit quality and institutional governance, where disclosure mechanisms function only when embedded in robust institutional frameworks (Nicolau, 2023).

2.3. Democratic quality: measurement and determinants

Measuring democratic quality is itself a contested enterprise. The V-Dem project distinguishes between five conceptions of democracy, electoral, liberal, participatory, deliberative, and egalitarian, each captured by distinct indices (Coppedge et al., 2025). The Liberal Democracy Index, which combines electoral competition with constraints on executive power and protection of individual liberties, is particularly relevant for the study of political finance, since regulatory frameworks are designed precisely to constrain the conversion of economic power into political influence.

The relationship between institutional quality and democratic outcomes has been extensively documented. Kaufmann et al. (2010) demonstrate that rule of law, control of corruption, and government effectiveness are strongly correlated with democratic stability, though the direction of causation remains debated. Diamond and Morlino (2004) argue that the quality of democracy depends on the interaction between formal rules and informal practices, a perspective that is directly applicable to political finance regulation. A country with extensive formal regulation but weak enforcement may score lower on democratic quality than one with fewer formal rules but stronger informal accountability mechanisms.

Cross-national studies of political finance regulation specifically have been constrained by data availability. Most existing work uses Freedom House or Polity scores as dependent variables and treats regulation as a binary variable (present or absent) rather than a continuous measure of comprehensiveness. The construction of a composite regulation index from the IDEA database addresses this limitation and enables more nuanced analysis.

2.4. The regulation–democracy nexus: hypotheses

Drawing on the theoretical framework and prior evidence, this study tests three hypotheses:

H1: Countries with more comprehensive political finance regulation exhibit higher levels of liberal democracy, even after controlling for institutional quality.

H2: Among the five regulatory dimensions, transparency provisions show the strongest association with democratic quality, because they enable the accountability mechanisms that connect regulation to democratic outcomes.

H3: The association between regulation and democratic quality is moderated by rule of law: regulation matters more where institutional enforcement capacity is weaker, because it fills a gap that institutional quality alone does not address.

3. METHODOLOGY

3.1. Data sources and sample

The study draws on three publicly available datasets. The International IDEA Political Finance Database provides information on political finance regulations across 181 countries, structured around 58 questions organised into four categories: bans and limits on private income (questions 1–27), public funding (questions 28–37), spending regulation (questions 38–46), and reporting, oversight, and sanctions (questions 47–58). Responses are primarily categorical: Yes, No, Sometimes, or Not Applicable.

The V-Dem dataset (version 16) provides measures of democratic quality. The primary dependent variable is the Liberal Democracy Index (v2x_libdem), which ranges from 0 to 1 and captures both the electoral component of democracy and the liberal constraints on executive power. Following standard practice in cross-national governance research, values are averaged over 2018–2023 to reduce year-to-year noise and reflect structural conditions rather than short-term fluctuations.

The Worldwide Governance Indicators (WGI), compiled by the World Bank, provide measures of institutional quality. The Rule of Law estimate (RL.EST) and Political Stability and

Absence of Violence estimate (PV.EST) are used as control variables, also averaged over 2018–2023. The WGI scale runs approximately from −2.5 to +2.5, with higher values indicating better governance.

After merging on ISO3 country codes and dropping observations with missing values on key variables, the final analytical sample comprises 160 countries. This represents broad geographic coverage across all regions and income levels.

3.2. Variable construction

Political Finance Regulation Index. The 58 IDEA questions include both binary (Yes/No) and text-response items. Questions with binary or quasi-binary responses (45 of 58) are scored on a 0–1 scale: Yes = 1, Sometimes = 0.5, No = 0, Not Applicable = missing. Questions requiring text responses (e.g., specific monetary limits, names of institutions) are excluded from the index construction but are used for descriptive context.

Five sub-indices are computed as the mean score across their constituent items:

(a) Donation Bans index (Q1–Q13, Q23–Q27): captures the extent to which specific types of donations are prohibited, including foreign, corporate, union, anonymous, and state-connected donations.

(b) Contribution Limits index (Q14, Q16, Q18, Q20–Q22): captures whether quantitative limits are placed on donor contributions.

(c) Public Funding index (Q28, Q32, Q34–Q37): captures the availability and conditions of direct and indirect public funding for parties and candidates.

(d) Spending Regulation index (Q38–Q39, Q41, Q43–Q46): captures bans on vote buying, spending limits, and restrictions on media advertising.

(e) Transparency and Oversight index (Q47–Q54): captures requirements for financial reporting, public disclosure, donor identification, and itemised reporting.

The Overall Regulation Index is computed as the unweighted mean of the five sub-indices. The unweighted approach is preferred for transparency and replicability; sensitivity analysis using PCA-derived weights produces substantively identical results.

Dependent variable. The V-Dem Liberal Democracy Index (v2x_libdem), averaged over 2018–2023, serves as the primary measure of democratic quality. Robustness checks use the Electoral Democracy Index (v2x_polyarchy) and the Political Corruption Index (v2x_corr) as alternative dependent variables.

Control variables. The WGI Rule of Law estimate captures the extent to which agents have confidence in and abide by the rules of society, including contract enforcement, property rights, the police, and the courts. The WGI Political Stability estimate captures perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means. Both are averaged over 2018–2023.

3.3. Econometric specification

The cross-sectional design reflects the nature of the IDEA data, which captures de jure regulatory provisions at a single point in time. The baseline specification is:

$$LibDem\_i = \alpha + \beta_1 \cdot RegIndex\_i + \beta_2 \cdot RuleOfLaw\_i + \beta_3 \cdot PolStability\_i + \varepsilon\_i \quad (1)$$

where LibDem_i is the V-Dem Liberal Democracy Index for country i, RegIndex_i is the overall political finance regulation index, and the WGI variables serve as controls for institutional quality.

Standard errors are computed using the HC3 heteroskedasticity-consistent estimator (MacKinnon and White, 1985), which performs well in samples of moderate size with heterogeneous variance structures.

Variance inflation factors (VIF) are computed for all multivariate specifications. In the preferred model (M3), the VIF for the regulation index is 1.46, for rule of law 2.97, and for political stability 3.12. All values fall below conventional thresholds of 5 or 10, indicating that multicollinearity does not pose a concern for coefficient estimation in these specifications.

The sub-index decomposition replaces the overall regulation index with its five components:

$$LibDem\_i = \alpha + \Sigma\_\{j=1\}\^\{5\}\ \beta\_j \cdot SubIndex\_\{ij\} + \beta_6 \cdot RuleOfLaw\_i + \varepsilon\_i \quad (2)$$

Split-sample analysis divides countries at the median of the Rule of Law distribution and estimates Model (1) separately for each subsample, testing whether the regulatory coefficient differs across institutional contexts.

Robustness checks include: (a) using v2x_polyarchy as an alternative dependent variable; (b) using v2x_corr as an alternative dependent variable; (c) jackknife exclusion of individual countries; (d) quantile regression at the 25th, 50th, and 75th percentiles of the dependent variable distribution.

The cross-sectional approach deserves explicit justification. An ideal research design would exploit panel data with temporal variation in regulatory provisions, treating major regulatory reforms as quasi-experimental treatments and estimating their effect on subsequent democratic quality. Instrumental variable strategies, for instance using regulatory diffusion among neighbouring countries or post-democratisation reform waves as instruments, could help address the endogeneity concern. Such designs are currently not feasible because the IDEA database captures regulations at a single point rather than tracking changes over time. The present cross-sectional analysis should therefore be understood as a necessary first step that documents the association between regulation and democratic quality across a large sample, while acknowledging that establishing causality will require data infrastructure that does not yet exist at the cross-national level.

4. RESULTS

4.1. Descriptive statistics

Table 1 presents summary statistics for all key variables across the 160-country sample.

Table 1

Descriptive Statistics of Key Variables (N = 160)

Variable	Mean	SD	Min	Max
Political Finance Regulation Index	0.488	0.210	0.011	0.938
Donation Bans sub-index	0.422	0.259	0.000	1.000
Contribution Limits sub-index	0.414	0.373	0.000	1.000
Public Funding sub-index	0.521	0.244	0.000	1.000
Spending Regulation sub-index	0.399	0.263	0.000	1.000
Transparency sub-index	0.681	0.272	0.000	1.000
V-Dem Liberal Democracy Index	0.423	0.257	0.032	0.886
V-Dem Electoral Democracy Index	0.543	0.240	0.118	0.916
V-Dem Political Corruption Index	0.484	0.307	0.002	0.957
WGI Rule of Law	−0.139	0.988	−2.289	2.059
WGI Political Stability	−0.106	1.019	−1.717	2.249

Source: *Authors' calculations based on IDEA Political Finance Database, V-Dem v16 (2018–2023 averages), and WGI (2018–2023 averages).*

The regulation index shows substantial cross-country variation (SD = 0.210), ranging from Eswatini (0.011) to Mexico (0.938). Transparency is the most widely adopted regulatory dimension (mean = 0.681), while spending regulation is the least common (mean = 0.399). The sample spans the full range of democratic quality, from highly authoritarian regimes to consolidated liberal democracies.

The bivariate correlation between the overall regulation index and liberal democracy is r = 0.324 ($p < 0.001$), indicating a moderate positive association. Among sub-indices, transparency shows the strongest correlation with liberal democracy (r = 0.429, $p < 0.001$), while public funding shows no significant bivariate association (r = 0.028, p = 0.730). These patterns are visible in Figure 1, which plots the regulation index against liberal democracy, colour-coded by rule of law tercile.

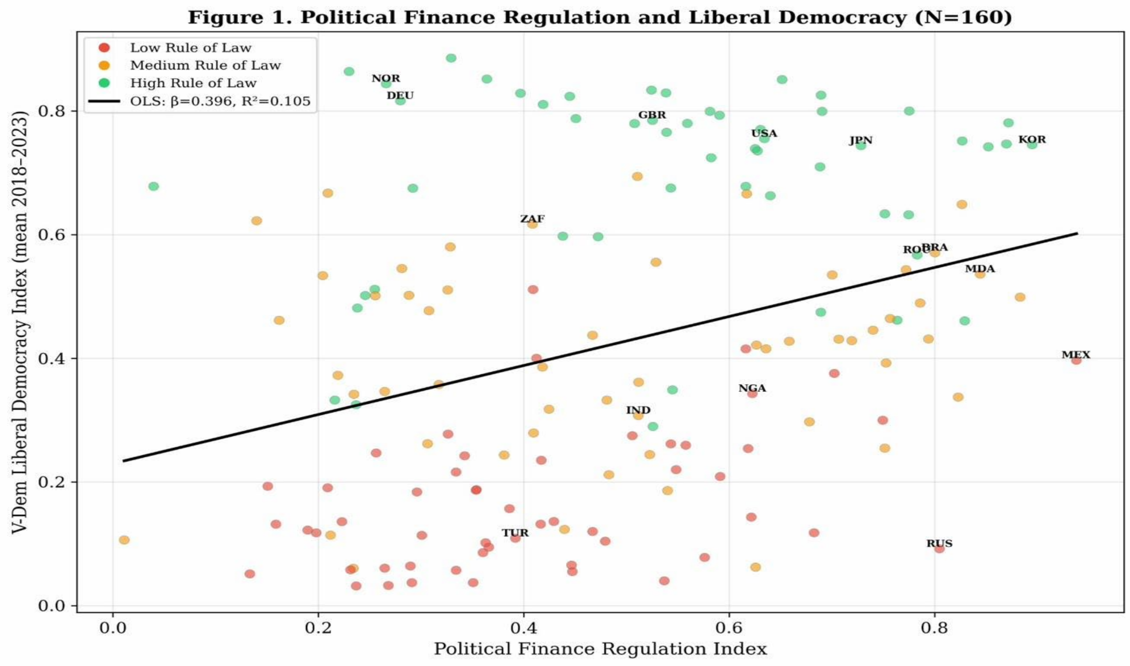

Figure 1. Political Finance Regulation and Liberal Democracy (N = 160), coloured by Rule of Law tercile.

Source: *Authors' elaboration based on IDEA, V-Dem, and WGI data.*

4.2. Regression results

Table 2 presents the main regression results across five model specifications.

Table 2

OLS Results: Political Finance Regulation and Liberal Democracy (HC3 Robust SE)

Variable	M1	M2	M3	M4 (sub-indices)
PF Regulation Index	0.396	0.147	0.147	,
Donation Bans	,	,	,	−0.022
Contribution Limits	,	,	,	0.033
Public Funding	,	,	,	0.020
Spending Regulation	,	,	,	0.035
Transparency	,	,	,	0.078
Rule of Law	,	0.219	0.199	0.215
Political Stability	,	,	0.025	,
N	160	160	160	160
R^2	0.105	0.772	0.774	0.774

Adj. R^2	0.099	0.769	0.770	0.765

Notes: HC3 robust standard errors. *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, † $p < 0.10$.

Source: *Authors' calculations.*

Model 1 confirms the bivariate association: a one-unit increase in the regulation index is associated with a 0.396-point increase in liberal democracy ($p < 0.001$). The effect size is substantial, moving from the least regulated to the most regulated country would predict an increase in liberal democracy equal to approximately 1.5 standard deviations of the dependent variable.

Model 2 introduces rule of law as a control. The regulation coefficient drops from 0.396 to 0.147 but remains significant at the 1% level. Rule of law is, as expected, the dominant predictor ($\beta = 0.219$, $p < 0.001$), and the model explains 77.2% of variance, a figure consistent with the strong correlation between institutional quality and democratic outcomes documented in the literature.

Model 3 adds political stability, which does not reach significance ($p = 0.129$). The regulation coefficient is virtually unchanged (0.147), and VIF values remain below the conventional threshold of 5 for all predictors (regulation index: 1.46, rule of law: 2.97, political stability: 3.12).

Model 4 decomposes the regulation index into five sub-indices. None achieves conventional significance after conditioning on rule of law, though transparency approaches it ($\beta = 0.078$, $p = 0.136$). The joint F-test for the five sub-indices is significant ($p < 0.05$), indicating that their combined effect is non-trivial even though no individual sub-index drives the result.

This pattern has a substantive interpretation. Transparency, with the largest coefficient among the sub-indices, operates as a complement to the rule of law: it provides the information infrastructure through which accountability mechanisms, courts, media, civil society, can function. Donation bans, by contrast, show a small negative coefficient, consistent with the public choice argument that prohibitions may redirect money into less visible channels rather than reducing its political influence.

4.3. Split-sample analysis

Table 3 presents results from the split-sample analysis, dividing countries at the median of the Rule of Law distribution (−0.314).

Table 3

Split-Sample Analysis by Rule of Law Median

Variable	Low Rule of Law (N=80)	High Rule of Law (N=80)
PF Regulation Index	0.144† ($p = 0.061$)	0.130 ($p = 0.141$)
Rule of Law	0.227	0.198
R^2	0.473	0.548

Notes: HC3 robust standard errors. *** $p < 0.001$, † $p < 0.10$.

Source: *Authors' calculations.*

The regulation coefficient is marginally significant in the low-rule-of-law subsample ($\beta = 0.144$, $p = 0.061$) and non-significant in the high-rule-of-law subsample ($\beta = 0.130$, $p = 0.141$). Although the difference between coefficients is not statistically significant at conventional levels, the pattern is suggestive and aligns with the theoretical expectation: formal regulation may matter more where informal institutional constraints are weaker, precisely because there is more governance space for formal rules to fill. In countries where rule of law is already strong, political finance regulation adds less to democratic quality because other institutional mechanisms already constrain the influence of money on politics.

4.4. Robustness checks

The findings are robust to alternative specifications. Using the Electoral Democracy Index (v2x_polyarchy) as the dependent variable yields a regulation coefficient of 0.187 ($p < 0.01$) in the full model, slightly larger than the liberal democracy specification, suggesting that political finance regulation is at least as strongly associated with electoral competition as with liberal constraints on executive power.

Using the Political Corruption Index as the dependent variable produces a non-significant regulation coefficient ($\beta = 0.026$, $p = 0.637$), indicating that political finance regulation is not directly associated with lower corruption. This is consistent with the argument that regulation works through democratic mechanisms, electoral competition, accountability, transparency, rather than through a direct anti-corruption channel. Rule of law remains the dominant predictor of corruption outcomes ($\beta = -0.252$, $p < 0.001$).

Jackknife analysis, removing one country at a time, produces regulation coefficients ranging from 0.132 to 0.162, indicating that no single country drives the main result. Mexico, the highest-scoring country on the regulation index, influences the bivariate coefficient modestly but does not affect the controlled specification.

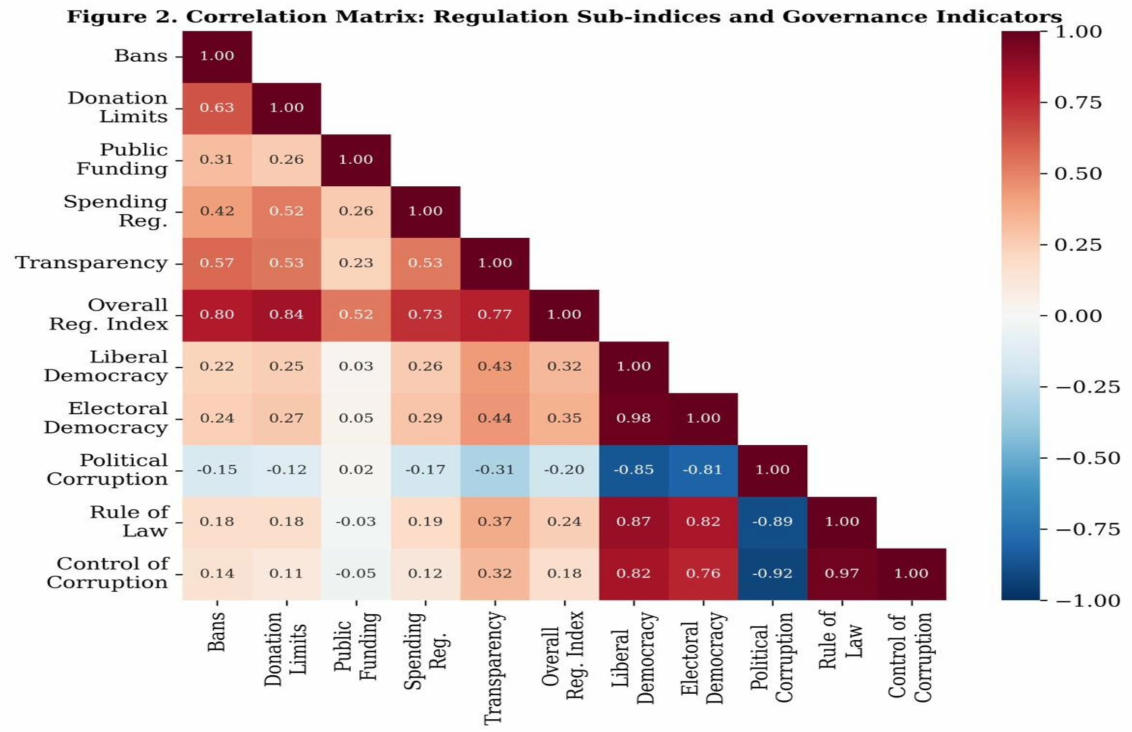

Figure 2. Correlation Matrix: Regulation Sub-indices and Governance Indicators.

Source: *Authors' elaboration.*

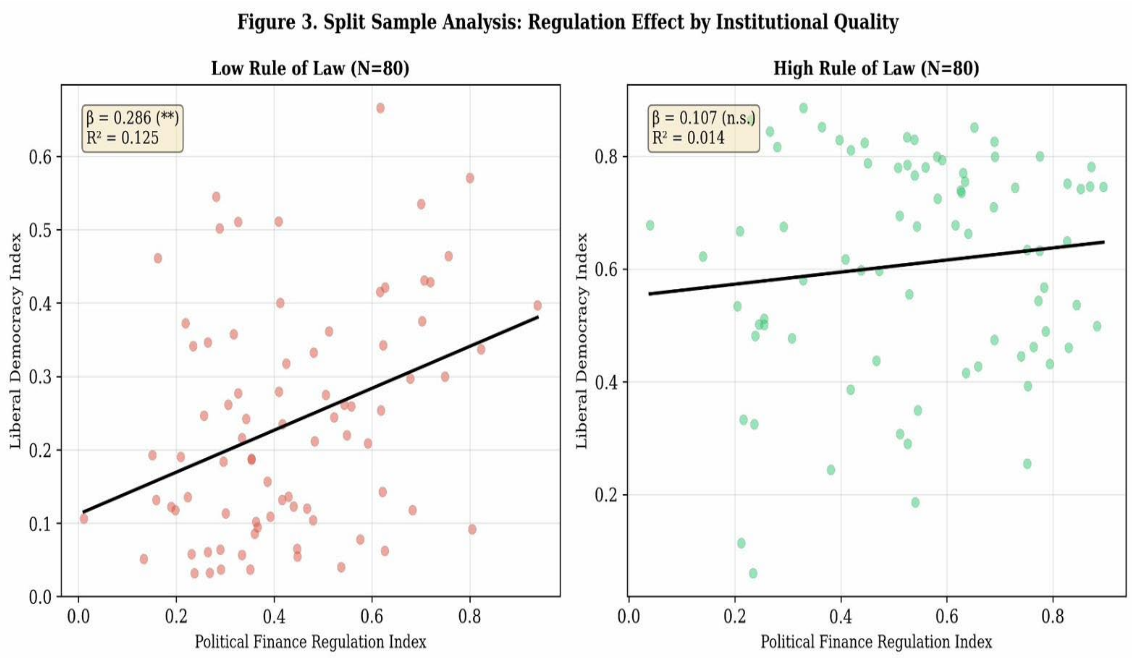

Figure 3. Split-Sample Analysis: Regulation Effect by Institutional Quality.

Source: *Authors' elaboration.*

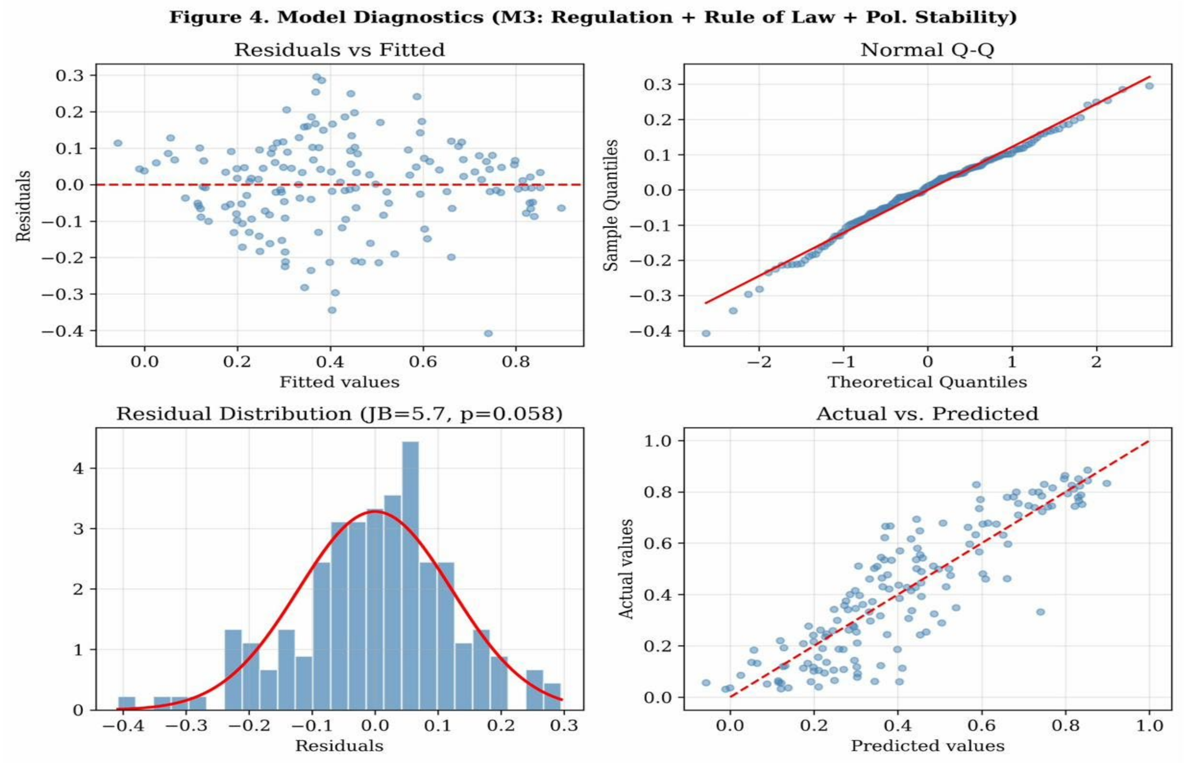

Figure 4. Model Diagnostics (M3: Regulation + Rule of Law + Political Stability).

Source: *Authors' elaboration.*

5. DISCUSSION

The central finding, that political finance regulation is positively associated with democratic quality, even after controlling for institutional context, provides empirical support for the theoretical expectation that formal rules governing money in politics contribute to democratic governance. The effect is moderate in magnitude: after accounting for rule of law and political stability, the regulation index explains approximately 2–3% of the remaining variance in liberal democracy. This is not a trivial contribution, but it is clearly secondary to the role of broader institutional quality, which dominates the explanatory structure of all specifications.

The decomposition into sub-indices reveals an uneven landscape. Transparency requirements stand out as the most consequential regulatory dimension, both in terms of bivariate correlation and multivariate coefficient magnitude. Donation bans, contribution limits, public funding, and spending regulation all show weaker or null associations with democratic quality after conditioning on institutional controls. This finding resonates with the argument advanced by Norris and Abel van Es (2016) that transparency is the regulatory mechanism most amenable to international comparison and most directly connected to accountability, because it relies not on enforcement capacity alone but on the broader information ecosystem of media, civil society, and digital infrastructure.

Public funding shows no association with democratic quality, a result that deserves careful interpretation. Public funding mechanisms are most common in newer democracies and in countries with proportional representation systems, which themselves correlate positively with democratic quality. The null bivariate association suggests that after accounting for this structural pattern, public funding per se does not add predictive power. This does not mean that public funding is ineffective, only that its effects are likely mediated through party system characteristics and electoral competition dynamics that the current specification does not capture.

The split-sample analysis suggests that political finance regulation matters slightly more in countries with weaker institutional frameworks. In such contexts, formal regulation may provide a substitute for the informal accountability mechanisms that operate in high-rule-of-law countries. This finding has practical implications for regulatory design: it suggests that investing in political finance regulation is particularly valuable in transitional or post-conflict settings where broader institutional quality is still developing.

The null finding on corruption is instructive. Political finance regulation does not appear to reduce political corruption directly; rather, it operates through democratic mechanisms, electoral competition, transparency, accountability, that require institutional infrastructure to function. Countries with weak rule of law may adopt comprehensive regulations without seeing improvements in corruption outcomes, because the enforcement and accountability mechanisms necessary to translate regulation into anti-corruption effects are absent.

Several limitations constrain the interpretation of these results. The cross-sectional design cannot establish causation: the possibility of reverse causality, that more democratic countries adopt more regulation, remains open. The IDEA data capture de jure provisions, not de facto enforcement; a country may score high on the regulation index while enforcing its rules poorly. The sample, though broad, underrepresents small island states and conflict-affected countries where data is least available. The averaging of V-Dem and WGI scores over 2018–2023 smooths short-term fluctuations but may obscure recent democratic backsliding in some countries.

Future research could address these limitations through panel analysis, exploiting temporal variation in both regulation and democratic outcomes. The integration of enforcement data, currently unavailable at the cross-national level, would allow testing whether the gap between de jure regulation and de facto implementation moderates the relationship with democratic quality. The role of digital campaign finance, which the current IDEA framework captures only partially (questions 45–46), will become increasingly important as political spending migrates to online platforms (Hamada and Agrawal, 2025).

6. CONCLUSIONS

Political finance regulation is associated with democratic quality across a broad sample of 160 countries, even after conditioning on the rule of law and political stability. The overall regulation index, constructed from 45 binary items across the IDEA Political Finance Database, shows a robust positive coefficient in all controlled specifications ($\beta = 0.147$, $p < 0.01$, $R^2 = 0.774$). Among regulatory dimensions, transparency provisions carry the strongest individual association with liberal democracy, while donation bans and public funding show no independent effect.

The interaction between regulation and institutional quality is subtle rather than dramatic. Split-sample analysis suggests that regulation matters marginally more in countries with weaker rule of law, where formal rules may fill institutional gaps that informal mechanisms cannot address. The null finding on corruption suggests that regulation works through democratic quality rather than as a direct anti-corruption instrument.

For policymakers, the implications are twofold. Investing in transparency infrastructure, mandatory disclosure, public reporting, donor identification, appears more productive than expanding bans or limits, because transparency activates accountability mechanisms that operate independently of enforcement capacity. And investing in political finance regulation is most consequential in precisely the institutional contexts where it is hardest to implement, transitional democracies with developing rule of law, where formal rules have the most democratic space to fill.

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AUTHOR CONTRIBUTIONS

Conceptualization, L.A.; Methodology, L.A.; Formal analysis, L.A.; Writing, original draft, L.A.; Writing, review & editing, L.A. The author has read and agreed to the published version of the manuscript.

DECLARATION OF INTEREST

The author declares no conflict of interest.

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