Money and Politics in Central and Eastern Europe

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1. Introduction

In the present particularly problematic stage of the democratic transition in Central and Eastern Europe (CEE) the issue of political finance is playing an important but thus far a largely undocumented and generally negative role. Academic attention has, rightly, been focused on issues relating to institutional design. One of the leading researchers in this field, Peter Burnell, says: “A much higher premium tends to be placed on such things as leadership skills and the techniques of constitutional drafting than on issues to do with political finance” (Burnell and Ware 1998:2). It is, however, precisely during the recent period of rapid change that political finance has been especially important.

The politics of CEE are less homogeneous than might be expected. National histories and social, cultural and economic conditions are very diverse. However, the post-communist countries share certain characteristics. All the countries surveyed here have experienced the transition from communism which constitutes “the fourth wave” of democratization.[1] Not all of them can as yet be firmly categorized as democratic regimes (including Belarus, Russia and Ukraine).

The current dissatisfaction in CEE is to a large degree the result of perceived problems relating to political finance. In country after country there have been explosions of discontent with the state of democracy in general and with political corruption, frequently associated with political finance, in particular. Recently published reports show that over 60 per cent of people in Poland, Hungary and the Czech Republic are dissatisfied with the current stage of democracy (Rzeczpospolita 31 May 2000). Yet, apart from the general analyses of regional experts such as Paul Lewis (1995, 1996, 1998), Janis Ikstens (2000, 2001a, 2001b) and Daniel Smilov (1999), there seems to have been no serious attempt to investigate the subject.

This chapter provides a preliminary cross-national comparison of the 17 CEE countries – Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russia, Slovakia and Ukraine – with a particular emphasis on Poland. It starts to apply to this region some of the models developed in the contemporary West European literature on political finance. It examines the laws regulating the political finance systems and considers (a) the cost of politics in CEE; (b) the sources of “political money”; (c) links between political finance and political corruption in post-communist countries; and (d) enforcement, disclosure, normative underpinnings and practical concerns. **It concludes that the influence of the financing of politics on the ways in which parties and politicians involve their party memberships and the electorate is a matter of profound importance to the quality of new democracies.**

There are certain limitations on research on political finance in CEE.

The first is the availability of data and data collection. Official data concerning political finance suffers from a number of shortcomings. Party accounts are inaccurate or incomplete. Official data often produces information on political parties’ current expenses, campaign spending and fund-raising, but in reality that is only part of the picture. Moreover, the official party accounts fail to include political financing at the local level. Despite those omissions, recent regulations on election finance have produced a good deal of information on political finance in most CEE countries, and unofficial materials and interviews have proved fairly valuable.

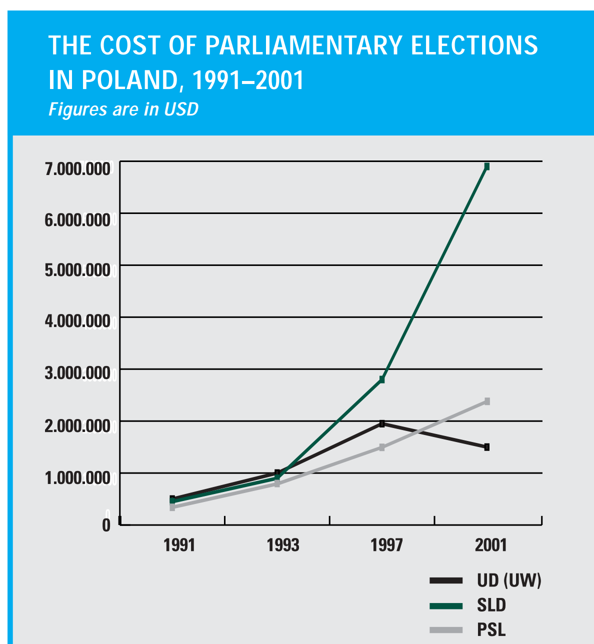
The second limitation concerns the interpretation of data. Time-series studies have some disadvantages, and instead of collecting one set of data (for example, party accounts for one year for a whole region), more sets of data must be collected, which at this stage of the research is impossible.

Regardless of those limitations, a combination of sources of data and methods of analysis does produce a general picture of political finance in CEE.

2. The Cost of Politics in Central and Eastern Europe

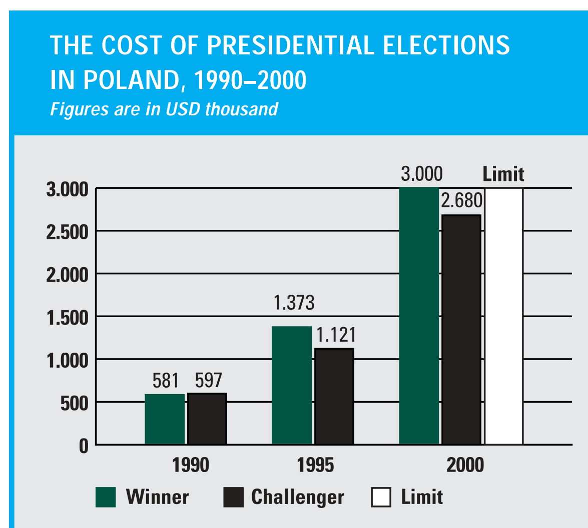
The changing style of political campaigning might not seem to be a convincing explanation for the continuation of corruption and scandal as far as campaign fund-raising is concerned. However, in

FIGURE 1.



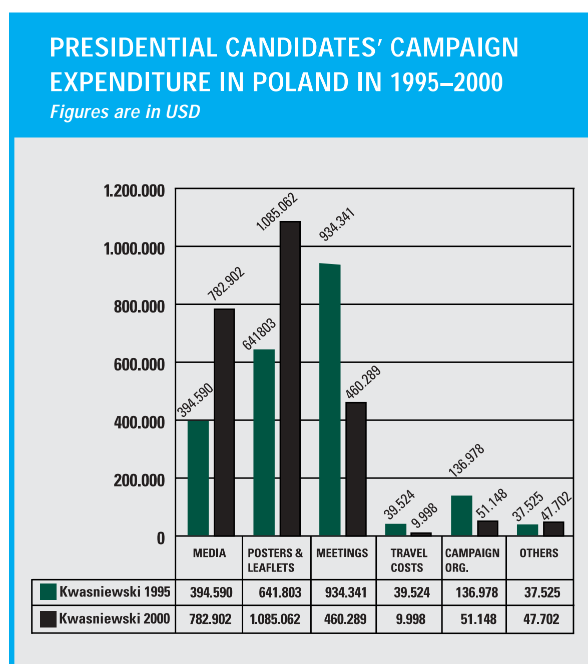
Notes: A legal ceiling on election expenditure of PLN 29 million (c. USD 6.744.000) was introduced in 2001. There were no legal ceilings to expenditure in the 1991–1997 national campaigns. PSL = Polish Peasants' Party; UD = Democratic Union, (after 1994) UW = Freedom Union; SLD = Democratic Left Alliance.
Sources: Parties' annual reports for 1991, 1993 and 1997, tabulated by the author.

FIGURE 2.



Notes: There were no legal ceilings to expenditure for the 1990–1995 campaigns.
Sources: Candidates' financial reports for 1990, 1995 and 2000, tabulated by the author.

FIGURE 3.



	MEDIA	POSTERS & LEAFLETS	MEETINGS	TRAVEL COSTS	CAMPAIGN ORG.	OTHERS
Kwasniewski 1995	394.590	641.803	934.341	39.524	136.978	37.525
Kwasniewski 2000	782.902	1.085.062	460.289	9.998	51.148	47.702

Sources: Candidates' financial reports for 1995–2000.

countries where television, newspaper and billboard advertisements are the norm, access to money becomes essential. In the emerging democracies of the former Soviet Union and CEE, **the mass media are the main tool of political communication.** As commentators have frequently pointed out, professional political mechanics – individual experts in opinion polling, television presentation and film production – have therefore become vital, expensive components of modern campaigning in CEE.

An examination of the revenue and expenditure items from the parties' annual reports shows that there was a significant **increase in election expenditure** between 1991 and 2001 in Poland (Figure 1).[2]

In particular, expenditure on the mass media and campaign advertising increased during presidential elections (see Figure 3). Yet official statistics need to be treated with considerable scepticism. In some CEE countries the artificially low legal limits on permitted campaign spending make the reporting of political party expenditure irrelevant.

The regulation of political expenditure generally involves the placing of **limits on the campaign expenditure** of political parties or individual candidates, both parliamentary and presidential. Such limits are a common feature in nearly two-thirds of the post-communist countries surveyed; they are applied according to a ceiling which may be based on a formula such as a multiple of the average monthly wage.

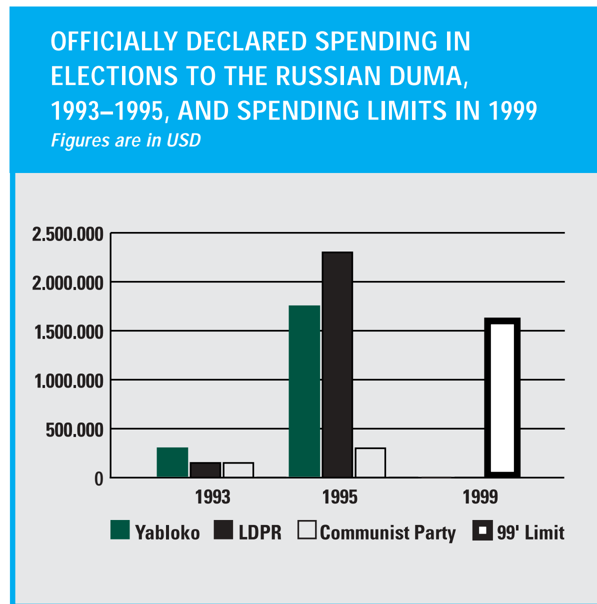
Bulgaria, **Lithuania** and **Russia** apply limits to the campaign expenditure of **parliamentary** candidates. In the case of **presidential** candidates, Bulgaria and **Poland** set a definite quota limit, while Russia and Ukraine use a formula (the minimum wage multiplied by 300.000 and 100.000, respectively). Furthermore, **Bosnia and Herzegovina** and **Slovakia** have introduced a **ban on**

paid political advertising, and Poland has introduced limits to it: the total time of paid programmes may not exceed 15 per cent of the total free time allocated to a particular election committee for its broadcasting of election programmes.

However, one key factor must be taken into consideration where the application of limits in the CEE countries is concerned: inflation, or as has been the experience of some of them, hyperinflation. In Bulgaria, a 1991 spending limit was applied to the 1997 elections, but by 1997 inflation had reduced the value of the leva by 3200 per cent. Candidates' maximum allowable expenditure on the campaign, BGL 30.000, was now worth the equivalent of just USD 20.

Another problem in controlling expenditure is **independent campaign spending.** Most of the countries surveyed here did not directly apply limits on independent groups spending money on behalf of a political party or presidential candidate during a campaign. In **Ukraine**, as the new election law places unrealistically low limits on campaign spending, parties and individual candidates are tempted to create a large number of small front organizations. Different non-official organizations fund billboard or television advertising, printing materials, opinion polling, research and so on. According to *Ukrainska Pravda*, an Internet newspaper, over USD 1.073.000 was spent on television advertising for the Social Democratic Party of Ukraine (United) (SDPU (o)) by organizations under the party's control. At the same time, the party's official spending on television advertising amounted to a mere USD 7.900 (*Ukrainska Pravda*, www.pravda.com.ua, 11 March 2002). In **Poland**, as a result of the recent reform of campaign finance, individuals or organizations not registered as candidates or election committees are not allowed to incur electoral expenses over specified limits. Third parties are prohibited from spending more than PLN 5.000 (ca. USD 1.200) during presidential elections and PLN 1.000 during parliamentary elections. Yet there is no legal definition of independent expenditure in any of the CEE countries. In Poland any form of campaigning done without committee approval is defined as independent expenditure and anyone who fails to limit their independent expenditure is subject to the penalty of imprisonment for up to two years, limitation of liberty or a fine. In fact it would be difficult to prevent political parties from using foundations and political institutes to run their election campaigns indirectly.

FIGURE 4.



OFFICIALLY DECLARED SPENDING IN ELECTIONS TO THE RUSSIAN DUMA, 1993–1995, AND SPENDING LIMITS IN 1999

Figures are in USD

Notes: LDPR = Liberal Democratic Party of Russia.
Sources: Parties' & candidate's financial reports.

The way in which the **reported statistics have reflected changes in spending limits** is demonstrated by the financial accounts of the **Russian** parties and electoral blocs. During the 1993 election campaign, national blocs spent ca. USD 3,7 million; two years later national blocs reported spending USD 15 million on campaigning.

In 1995 spending limits were imposed, allowing individual candidates to spend no more than USD 100.000 and electoral blocs no more than USD 2,4 million. The officially reported figures on campaign spending naturally slumped in line with the new regulations. In the 1999 elections to the Russian Duma, individual candidates were allowed to spend only USD 65.000 and electoral blocs USD 1,6 million. Not surprisingly, the press has reported that unofficially national blocs spend considerably more than these totals, which of course they were unable to declare without laying themselves open to prosecution. In mid-1999 consulting companies and public relations agencies confidently asserted that in the upcoming Duma elections half as much money would be spent as in 1995. In the 1999 elections, according to different estimates, all parties combined spent between USD 300 and USD 500 million on this democratic procedure. In fact, according to the campaign fund-raiser for the Union of Right Forces (Soyuz Pravykh Sil, SPS), the SPS spent over USD 32 million on the 1999 Duma elections (interview September 2000). Leonid Gozman, who was responsible for the party's electioneering

strategy, reportedly spent no less than USD 200.000 on campaign research alone (Gozman November 2000).

Another example comes from the Russian 1998 campaign for the election of governor in the Krasnoyarsk region, where General Alexander Lebed won together with the successful bureaucrat–technocrat Valeriy Zubov (former governor of Krasnoyarsk). According to expert estimates, Lebed spent ca. USD 12 million, while Zubov spent only USD 4 million. Yet the official spending limit for the race was little more than USD 160.000 (www.ispr.org/proba1.html).

In the Russian 2000 presidential election, each candidate could spend ca. RUR 26 million (ca. USD 920.000) in the first round of the election and RUR 34 million (ca. USD 1.200.000) in the second round. In the case of acting president Vladimir Putin's campaign, total contributions to his electoral fund topped RUR 29.886.720 (ca. USD 1.030.000), and part of this amount was returned to the contributors. Putin had made it clear that he had no intention of running an intensive and costly election campaign. He considered it unacceptable for him "to be explaining during the election campaign which is more important – Tampax or Snickers" (Interfax 7 March 2000). However, according to Lev Ponomarev, Executive Director of the all-Russia Movement for Human Rights, Putin made extensive use of the advantages of his official position in his election campaign. For example, Ponomarev cited instances of Putin's handing out of gifts during his trips round the country and allocating sums of money to various institutions (*Nezavisimaya Gazeta* 1 March 2000).

The Central Election Commission (CEC) determined that the book *In the First Person: Conversations with Vladimir Putin* should be considered as campaign material for the presidential candidate, so that his electoral fund had to pay for its publication and distribution. Also, during the 2000 presidential elections four presidential candidates made serious accusations against Grigoriy Yavlinskiy to the effect that his extensive newspaper and television coverage exceeded the first-round limit of RUR 26 million (ca. USD 670.000). As a result of these and many other complaints, the CEC examined Yavlinskiy's campaign spending.

In general, the **Russian**, **Ukrainian** and **Polish** examples (Table 5) show that **spending limits have proved in practice to be a fiction**, having been introduced at an unrealistically low level. Not only have they failed to curb a political finance "arms race", but their failure has also undermined confidence in the whole system of political finance regulations. In addition, the rules have made it difficult to assess the true levels of expenditure.

Moreover, in countries like Ukraine and Russia the institutional imperfection of the political market, restricted access to the media even for those with capital, and discrimination in the allocation of free media coverage limit the effectiveness of money in the context of an election. The distinctive feature of these countries is that **money alone is not a sufficient condition** for proper political communication. Rather, it must be combined with "**administrative capital**, that is, control over the administrative and regulatory apparatus" (Treisman 1998:12). According to one Russian newspaper:

> Like in Yeltsin's days, the acting governor always has a certain advantage during the election: it is always easier to be re-elected than to be elected anew. A good example of using the so-called "administrative resource" is Boris Govorin's campaign in Irkutsk. Govorin was obviously using his position as an acting governor to his full advantage. In such cases, the presence of the presidential representatives in the regions is a limiting factor – they can use their power if an acting governor "goes too far". It is the support of local elite that usually determines the outcome. In most regions, the ruling class is divided into a number of groups that have various economic and political interests. All the contenders chose a specific "clan" as their protector against other clans. For example, if an acting governor controls TV, his opponents can use newspapers. If one candidate is supported by [the Federal Security Service] FSB, another one can make an alliance with the local militia etc. A skilful manipulation of the different groups' rivalries can give outstanding results even if a candidate is lacking the "administrative resource" and is not supported by the Kremlin. This is exactly what happened in Vladivostok, where Sergey Darkin won the election against such strong candidates as Apanasenko and Cherepkov (Strakhov 2001).

So-called "administrative resources" are based on special treatment by the local government, the state-owned media, directors of state-owned enterprises and organizations funded by the state budget. A favoured party or presidential candidate receives undocumented

TABLE 5.

FINANCING A PRESIDENTIAL ELECTION CAMPAIGN: MAJOR CANDIDATES' OFFICIAL SPENDING IN RUSSIA, UKRAINE AND POLAND.
Figures are in USD million

RUSSIA				UKRAINE		POLAND					
Presidential elections 1996 a)		Presidential elections 2000 b)		Presidential elections 1999 c)		Presidential elections 1990		Presidential elections 1995		Presidential elections 2000 d)	
Candidate	Exp.	Candidate	Exp.	Candidate	Exp.	Candidate	Exp.	Candidate	Exp.	Candidate	Exp.
Lebed	2,83	Zyuganov	0,869	Moroz	0,214	Mazowiecki	0,597	Kwasniewski	1,373	Kwasniewski	2,999
Zhirinovskiy	2,72	Titow	0,866	Tkachenko	0,195	Walesa	0,581	Walesa	1,121	Krzaklewski	2,680
Yavlinskiy	2,72	Yavlinskiy	0,840	Kuchma	0,154	Tyminski	0,351	Pawlak	0,544	Olechowski	0,491
Yeltsin	2,42	Putin	0,451	Vitrenko	0,125	Cimoszewicz	0,192	Kuron	0,529	Kalinowski	0,528

Notes: a) Official spending limit for 1996 was USD 2.850.000. b) Official spending limit for 2000 was USD 920.000.
c) Official spending limit for 1999 was USD 385.000. d) Official spending limit for 2000 was USD 3.000.000; not applicable for 1990 and 1995.
Sources: Annual reports for 1990, 1995, 1996, 1999 and 2000. Tabulated by the author.

BOX 7.

THE USE OF ADMINISTRATIVE RESOURCES

Restricting:

- censored access to the mass media
- restrictions on getting premises for meetings
- introduction of mechanisms regulating the work of the bodies supervising party counterparts' offices – of NGOs, private enterprises, the mass media, etc.
- public statements on positions of the heads of oblast, city, factory, etc.

Supporting:

- free or preferential access to state mass media, publishing houses, transport agencies, etc.
- recommendations to the heads of state and private institutions on assisting in continuing pre-election activities
- immediate influence on the staff of household agencies and election commissions

and "free" services, uses state facilities, attends organized meetings with "working collectives" and so on. The administrative resource of power has to be analysed in two dimensions – restricting and supporting. For instance, according to Strakhov, "[The] Kremlin's priority today, unlike Yeltsin's days, is not helping a 'loyal candidate' – it is the preventing of an 'unacceptable' one from winning" (Strakhov 2001).

For certain CEE countries, therefore, financial resources alone are not sufficient. It is still possible for those who have comprehensive control over instrumental aspects of political life – the media, the security services, the administration and the enforcement agencies – to exclude actors who may have seemingly limitless resources from effective political competition.

3. Sources of Political Finance

According to Panebianco, "A plurality of financial sources safeguards the party from external control" (Panebianco 1998:59). The tentative conclusion that emerges from existing academic research is that in Central and Eastern Europe, and particularly in the post-Soviet countries, the lack of **diverse sources of money** emerges as the major problem, rather than the level of expenditure. Even if the real levels of income and expenditure, as distinct from the declared levels, are still uncertain, two things are clear: (a) the relative importance of different sources of political finance; and (b) the contrast between the funding of communist (or post-communist) parties and other parties.

In CEE **regulatory frameworks** have attempted to regulate the sources of political money. No regulations existed during the communist period. However, CEE regimes are characterized by a variety of regulations, some having a liberal approach (Croatia) and little state funding (Latvia, Russia, Ukraine), others having more detailed regulations or severe restrictions on the role of non-state donors. For instance, **Poland** has recently chosen to **prohibit donations by any corporate bodies, foundations, associations** and so on in a desperate attempt to limit the influence of "plutocratic" funding.

In general, in terms of patterns of **income**, political funding in the region is characterized by:

TABLE 6.

OFFICIAL SOURCES OF POLISH PARTIES' INCOME, 1997–2000

Figures are percentages of total income and total costs in Polish zloty (PLN) and USD.

Source of income	Polish Peasants Party (PSL) (post-communist)				Freedom Union (UW)				Labour Union (UP)				Solidarity Election Action's Social Movement (RW AWS)		
	1997a	1998	1999	2000	1997a	1998	1999	2000	1997a	1998	1999	2000	1998	1999	2000
Investment dues	77,48	87,96	90,69	85,98	n/a	0,93	4,93	2,33	86,51	n/a	0,04	0,08	n/a	2,69	17,89
Donations	17,48	7,18	4,19	4,6	87,29	70,51	23,15	26,32	11,39	n/a	n/a	n/a	0,83	15,41	20,55
Membership	0,29	0,42	0,81	1,47	3,39	15,75	62,8	36,9	2,09	n/a	59,68	86,32	99,17	81,90	61,56
State aid	4,75	4,44	0,68	0,54	n/a	11,63	4,52	3,16	n/a	n/a	33,78	13,21	n/a	n/a	n/a
Others (e.g., bank loans)	n/a	n/a	n/a	n/a	9,32	1,18	n/a	n/a	n/a	n/a	6,5	0,39	n/a	n/a	n/a
TOTAL															
PLN (million)	12,110	10,473	11,147	13,699	7,108	8,455	3,092	4,311	0,390	n/a	0,147	0,366	0,084	0,527	1,21
USD (million)	3,562	2,972	2,832	3,105	2,091	2,400	0,786	0,977	0,120	n/a	0,037	0,083	0,024	0,134	0,276

Notes: Donations cover contributions by institutions (companies, partnerships), individual donations, contributions by candidates and public collections.
a = Parliamentary elections year.
Sources: Parties' annual reports for 1997, 1998, 1999 and 2000. Tabulated by the author.

- irregular flows of funds and relatively non-diversified financial sources;
- limited income from membership subscriptions; and
- the disproportionately large role of plutocratic funding, which often exceeds direct state subsidies.

In most of the CEE countries **direct public funding** is less important than would be expected.

In considering the issue of political finance in CEE, and particularly sources of income, it is also necessary to analyse the special features relating to countries in transition. One of the crucial aspects of CEE countries' political financing is the way in which **political parties emerged from the old regime unequally endowed.** In Hungary and Czechoslovakia all major parties were allocated resources such as buildings and office equipment on an equal basis, whereas in Poland this was not the case. The communist parties' hold on some of their economic resources has had a continuing influence in a number of countries. The special circumstances of the transition in Poland, Hungary, Bulgaria and Romania, for instance, undoubtedly had the effect of protecting the communist parties' finances (Holmes and Roszkowski 1997). "Considerable care was taken during the reconstruction of the communist parties in Hungary and Poland to place the new, post-communist parties in as advantageous a financial position as possible" (Lewis 1998:150). The result was that the parties began with radical financial advantages through different endowments for electoral spending. It is hardly surprising that the issue of the inheritance of party property is still a subject of lively political debate. The substantial differences between the funding of the post-communist parties and the post-Solidarity movements became a definite and permanent characteristic of the Polish political finance system. For instance, in 1999–2000 the income of the Polish Peasants' Party (PSL) was on average 56 times higher than that of the Labour Union (UP), and the financial imbalance between parties has influenced the process of political competition and party consolidation.

3.1. Membership Subscriptions and Party Taxes

There are a variety of reasons why parties need members. Certainly one of them is the potential to generate resources, such as money, for the organization. Duverger argued that: "The party is essentially based upon the subscriptions paid by its members.… The mass-party technique in effect replaces the capitalist financing of electioneering by democratic financing" (Duverger 1954:63).

Indeed, income from membership subscriptions has traditionally been a healthy form of party financing, particularly for the West European mass parties. According to Duverger's possibly overly idealistic account, written after World War II, the mass party "is essentially based upon the subscriptions paid by its members" (Duverger 1954:63). Curiously, before 1989 membership fees were officially the main source of finance for the communist parties. In most cases party members, including those working abroad, were obliged to pay fees. Janda found that in 17 out of 42 democratic parties in the 1950s "sources, including membership dues and the income from party enterprise" accounted for more than two-thirds of total income (Janda 1980).

The circumstances of the transition from a non-democratic regime to a democratic system do not entirely account for the failure to develop popular financing of politics in CEE. There have been similar failures in West European countries. However, **low party membership** and, resulting from this, low income from party membership, are especially pronounced in CEE. If party membership is measured as a percentage of the electorate, there is a wide range of results both in Western Europe and in CEE, but on average CEE scores considerably lower than Western Europe. According to recent research by Peter Mair and Ingrid van Biezen (Table 7), the percentage of electors who were party members in 1999–2000 was 2,8 per cent in the four CEE countries for which evidence was available (Czech Republic, Slovakia, Hungary, Poland) compared with 5,5 per cent in 16 countries of Western Europe. Had figures been obtained from more CEE countries, the proportion of party members to electors would almost certainly have been lower than 2,8 per cent.

It is apparent that the CEE parties are anything but mass parties. The low percentage of party members in Poland is especially striking when compared with the years of Solidarity in the 1980s. As a mass movement Solidarity achieved greater popular mobilization than almost any other movement in modern times. Perhaps this very success paradoxically prevented the emergence of organized parties. The contrast between the huge mobilization under Solidarity and the failure of the post-Solidarity parties to take advantage of it are remarkable. Poland witnessed a mass political

TABLE 7.

PARTY MEMBERSHIP AS A PERCENTAGE OF THE ELECTORATE (M/E), LATE 1990s AND 2000

Country	Year	Total party membership	M/E
Austria	1999	1.031.052	17,66
Finland	1998	400.615	9,65
Norway	1997	242.022	7,31
Greece	1998	600.000	6,77
Belgium	1999	480.804	6,55
Switzerland	1997	293.000	6,38
Sweden	1998	365.588	5,54
Denmark	1998	205.382	5,14
Slovakia	2000	165.277	4,11
Italy	1998	1.974.040	4,05
Portugal	2000	346.504	3,99
Czech Republic	1999	319.800	3,94
Spain	2000	1.131.250	3,42
Ireland	1998	86.000	3,14
Germany	1999	1.780.173	2,93
Netherlands	2000	294.469	2,51
Hungary	1999	173.600	2,15
United Kingdom	1998	840.000	1,92
France	1999	615.219	1,57
Poland	2000	326.500	1,15
Mean			*4,99*

Sources: Mair, P. and Ingrid van Biezen. "Party Membership in Twenty European Democracies, 1980–2000." *Party Politics* 1(7) 2001:9.

movement, but when the euphoria of 1989–1990 disappeared, parties with a smaller membership base than Poland's neighbours, namely the Czech Republic, Hungary and Slovakia, were all that remained.

There are variations between old and newly established CEE parties in the structure of their income. Income from membership subscriptions is particularly low in non-communist CEE parties. Moreover, post-communist and communist parties still benefit from having significant numbers of local activists and are relatively well organized in units that are based on old networks supported by many informal links with local businesses.

In Bulgaria, in the case of the Bulgarian Socialist Party, which has a significantly larger membership base than its competitors, in 1995 membership subscriptions accounted for 23,1 per cent of the party's total income. However, during the period 1997–1999 the Socialists reported receiving only 4 per cent of their income from this source (Kanev 2000). At the same time, the Union of Democratic Forces (UDF) reported in 1995 that party members paid BGL 1.995.000 (6,87 per cent of total income). However, in 1997 membership subscriptions (BGL 718.000) amounted to only 0,078 per cent of the total income of BGL 921.718.000 (Smilov 1999).

The records of the main Czechoslovakian parties in 1991 showed a great degree of differentiation between parties' income. The role of membership subscriptions was very clearly evident in the Communist Party of Bohemia and Moravia, where they accounted for 36,6 per cent (ca. USD 1,32 million) of the party's total income of CZK 112 million (ca. USD 3,61 million). For the Civic Movement, the Czechoslovak People's Party and the Czechoslovak Socialist Party, however, membership subscriptions accounted respectively for 0,34 per cent, 15,6 per cent and 5 per cent of total income (Lewis 1998:139).

In Estonia in 2000 membership subscriptions amounted to 1,81 per cent of Pro Patria's income, 7,15 per cent of the Centre Party's total income and 3,05 per cent of the Reform Party's. The Moderates stated in their annual financial report that the party had not received any membership subscriptions at all. Even in Hungary the proportion of membership subscriptions in party budgets is generally very low. In 1995 the Hungarian Democratic Forum received HUF 9,7 million (equivalent to ca. USD 79.500), which accounted for

TABLE 8.

INCOME FROM MEMBERSHIP SUBSCRIPTIONS IN POLAND, 1997–2000
Figures are percentages of total party income.

Party	1997	1998	1999	2000	Mean
Polish Peasant Party (PSL)	0,29	0,42	0,81	1,48	0,75
Labour Union (UP)	2,09	0,00	59,68	86,32	37,02
Freedom Union (UW)	3,39	15,75	62,80	36,89	29,70
Social Democracy of the Republic of Poland (SDRP)/(SLD)	11,98	n/a	66,07	80,64	52,90

Sources: Parties' annual reports for 1997, 1998, 1999 and 2000. Tabulated by the author.

0,96 per cent of total income. In the case of Fidesz the proportion of total income accounted for by membership subscriptions (ca. USD 5.738) was only 0,12 per cent in 1995. Again, the post-communist Hungarian Socialist Party received far more from membership subscriptions than any other party, although its income from this source was low – 3,27 per cent of the total (ca. USD 160.000) (Lewis 1998:139).

According to Roper, "In the case of Romania, party member dues have traditionally never been collected. Because of the low standard of living and lack of participatory culture, membership dues have never been an important source of party revenue" (Roper 2002). Similarly, for the Ukrainian political parties the role of membership subscriptions is very limited and parties do not encourage their members to make direct payment to the organization. Yet the Socialist Party manages to receive money indirectly from its members and supporters who subscribe to the party's newspapers (Moroz October 2000).

In 1997 the PSL in Poland – the party with the strongest membership base – reported that members paid only PLN 36.032 – equivalent to ca. USD 11.000. The share of the PSL's total income which membership subscriptions accounted for remained fairly constant, ranging from 0,29 per cent in 1997 to 0,42 per cent in 1998 (Bentkowski 1999). The importance of membership subscriptions in the smaller parties is also slight. This can be illustrated by the example of the Labour Union, which stated in its annual financial report for 1998 that it had not received any membership subscriptions, whereas these had amounted to the 2,09 per cent of total income in 1997. This, however, as the party's deputy chairwoman pointed out in an interview, was a mistake made by the party treasurer in drawing up the accounts (Jaruga-Nowacka 1999).

In the case of the Freedom Union (UW), the proportion of total income accounted for by membership subscriptions rose sharply from 3,39 per cent in 1997 to 62,8 per cent in 1999. Yet the official records of any party are highly misleading in that they confuse two different kinds of donations under "membership income". According to the records, membership income includes not only dues from ordinary members but also so-called "party taxes" which are levied at much higher rates from public office holders.

3.2. Income from the Spoils of Office

If they are unable to raise the funds they consider sufficient from voluntary payments from ordinary party members, governing parties and their candidates in many parts of the world levy "taxes" on those who derive benefits from government. In post-communist regimes, two classes of donor are the main sources of such enforced contributions: government contractors and office-holders, both appointed and elected.

The phenomenon of demanding money from office-holders is not limited to CEE, and the history of party taxes among Western democracies is well known. Political "assessments" have long characterized the spoils system by which Western governments have partly been staffed. In the United States in 1867 the first restrictions of any kind on campaign giving were put in place to protect government employees. Nonetheless, in 1878 at least 75 per cent of the money raised by the Republican Congressional Committee came from federal office-holders (Heard 1960:145–147). According to Ware, "this has been practised by various parties in Germany, although it came to be used by the Greens in the 1980s not so much to raise money for the party as to prevent the development of careerism amongst its legislators" (Ware

TABLE 9.

PARTY TAXES IN POLAND, 2000

Figures are percentage of salary or quota in PLN.

	SLD	RS AWS	PSL	UW
Parliamentarians	7	PLN 120 (USD 27)	5a)	10
Councillors	7	PLN 100 (USD 22)	1	10b)

Notes: a) 3 per cent for parliamentary caucus and 2 per cent for campaign fund. *b)* For councillors' caucus.
SLD = Democratic Left Alliance; RS AWS = Solidarity Election Action's Social Movement; PSL = Polish Peasants' Party; UW = Freedom Union.
Sources: Rzeczpospolita 44, 21 February 2001; and interviews.

1996:299). In CEE the "party tax" is usually reported jointly with all other income from membership dues or donations. In the context of party taxes, therefore, the relation between parties and the state as a major source of financial resources comes into prominence.

In **Romania**, all parliamentary factions oblige their MPs to make similar payments. Roper reports that "the amount may be as much as 20 per cent of an MP's monthly salary" (Roper 2001).

The **Polish** case shows the spectacular importance that these party taxes have come to assume (Table 9). The rise of this new form of fund-raising is the result of recent party reorganization and expansion. As a result of the 1998 administrative reform, political parties considerably increased the number of their councillors (Szczerbiak 1999). Parties demand a fixed share of the salaries of members who hold an elective or appointed public office. These tolls apply to most of the 560 MPs, hundreds of party members with government positions, members of supervisory boards and, above all, thousands of local councillors. The amount depends on the party and in the case of local councillors varies, being 5–10 per cent of their salaries or certain fixed quotas. Members of supervisory boards and other members with functional positions are compelled to contribute 10 per cent of their salaries. The current importance of contributions from public employees should not be underestimated. In the presidential campaign of 2000, most of the senior office-holders of the presidential administration contributed to President Alexander Kwasniewski's campaign fund. To say that there was a causal connection between "voluntary" contributions and significant financial bonuses received by these officials would be speculation. It is estimated that "party taxes" have annually provided and provide approximately PLN 20–30 million (USD 4–7,5 million).

Moreover, the political parties have taken over a large part of the public administration, nominating middle-level party bureaucrats as "political advisers" to senior government officials. These political appointments have resulted in additional in-kind subsidies. In general, such political advisers receive a salary of PLN 2.000–5.000 (USD 500–1.250), together with additional benefits such as an office, a mobile telephone and a computer. Thus, the approximate total cost of maintaining such a political adviser probably amounts to PLN 4.000–8.000 (USD 1.000–2.000) per month. All the parties in Poland make use of such arrangements, although the scale depends on the number of offices they control (both at national and local levels). In total, although this calculation is only approximate, the number of such positions in Polish politics may be close to 1.000.[3] Thus, the annual overall cost of maintaining such party apparatus for all the parties throughout Poland can be estimated at approximately PLN 72 million PLN (USD 18 million).

3.3. Donations from Wealthy Individuals and Corporations

In CEE the importance of large donations is in proportion to the insignificance of money from membership subscriptions. Parties which are stressed by the dynamic of the electoral struggle and yet do not engage themselves in grass-roots initiatives and indigenous growth of their memberships have had reasons to be keen to accept generous contributions from a "few big private donors, industrialists, bankers, or important merchants" (Duverger 1954:63). Thus, as the process of party development in CEE has accelerated through a sequence of elections, the intensive party competition has led to growing costs and mobilization of the necessary resources.

One of the most prominent issues in post-communist states has been the large donors' political influence and access to decision makers. In a matter of years fund-raising efforts among ordinary supporters have declined and **institutional donations** have become more significant. Individual contributions from personal income or wealth, as well as corporate donations, have become a major source of income for many CEE political parties and candidates, especially during election years. Even taking account of almost certain under-reporting of political payments, the growing role of large donors emerges clearly.

In **Poland**, in terms of corporate support, institutional

donations represented less than 40 per cent in the 1991 parliamentary campaign, compared to ca. 87 per cent of the total party income of the UW in 1997. During the 1995 presidential elections Lech Walesa received one donation from businessman Aleksander Guzowaty which constituted almost 72 per cent of Walesa's income and is the largest official donation to date in Polish politics. In **Russia**, in the 1995 Duma elections, 515 corporate donors contributed ca. RUR 28 billion (ca. USD 6 million) to the 30 electoral associations – almost 38 per cent of all parties' income. During the elections, institutional donations represented ca. 55 per cent of the income of Our Home is Russia (ca. USD 1,3 million) and 49 per cent of the income of the Liberal Democratic Party of Russia (LDPR) (ca. USD 1,1 million). During the 1996 presidential elections contributions from corporate donors played the most important role, representing more than 72 per cent of the total candidates' income (ca. USD 10,6 million). General Lebed received 93 per cent of his income from 94 legal entities (ca. USD 2,65 million) while donations made up 90 per cent of Yeltsin's campaign fund (ca. USD 2,6 million).

In **Latvia**, examination of the parties' annual reports shows that some 80 per cent of their funding comes from donations. According to Ikstens, "large donations (more than USD 5.000) make up 80 per cent of corporate contributions and donations of more than USD 1.000 cover almost 75 per cent of income from private donations" (Ikstens 2001a). Most of the corporate donations come from financial institutions, companies engaged in transport of oil and chemical products, and the food industry, which is the third most important contributor.

In **Bulgaria**, despite the lack of legally disclosed information concerning parties' income, the clear picture is that in recent years donations and sponsorship have played a major role in financing political parties. In 1995 donations accounted for 47,81 per cent of the Bulgarian Socialist Party's total income and 81,26 per cent of that of the Bulgarian Democratic Forum. The UDF received 82,25 per cent of its income from donations in 1995; in 1997 donations constituted 99,9 per cent of its total income.

In **Ukraine** more than in any other country informal political actors – financial groups and political "oligarchs" – dominate the political spectrum. The oligarchs have taken a direct and active role in supporting political parties and campaign blocs. In the 1998 parliamentary elections money officially received from legal entities accounted for 91,4 per cent of the parties' campaign committees' overall income. The by-elections in 2000 only confirmed that Ukrainian political funding is dominated by plutocratic financing. According to expert evaluations, and consistent with information provided by the staff of the central office of the Democratic Union Party, the expenditure of one representative of oligarchy during by-elections on the constituency no. 115 in Lviv in June 2000 totalled USD 110.000–150.000.

A similar set-up exists in the Ukrainian Parliament, where a market for votes exists. Thus, a parliamentary faction would pay a new MP USD 20.000–50.000 (depending on his/her political weight) plus ca. USD 1.500 in monthly salary. When Hromada (a fraction created by former prime minister Pavlo Lazarenko) was formed, its deputies received ca. USD 30.000–40.000 each (out of total fraction cost of ca. USD 500.000–700.000). It was still a profitable business, as Hromada managed to seize the most influential committees, such as those on the budget, combating corruption and the parliamentary agenda. Another example comes from the ex-government People's Democratic Party (PDP): When in power, the party guaranteed its faction members important privileges from the cabinet. Approximately 90 new members joined the faction hoping to gain access to state property. In general, in the Ukrainian Parliament the cost of votes is discussed openly. During the political uncertainty after presidential elections one vote has sometimes cost USD 10.000–15.000 (normally it is not more than USD 1.000) (PiK 2–9 March 2000).

The fragmented and non-institutionalized party system encourages big business to form client circles and establish its own political parties, parliamentary factions and mass media. This allows it not only to directly control the decision-making process but also to gain parliamentary immunity. Ukrainian politics is to a great extent a combination of business projects run by powerful oligarchs who enjoy political immunity.

The regulatory frameworks have attempted, with varying degrees of success, to prohibit certain sources and limit the amount of allowable contributions. About half of the countries in the region have introduced **limits on campaign contributions** to parties and/or individual **candidates**.

The two most common prohibitions on sources of donations concern **state enterprises** and **foreign**

TABLE 10.

OFFICIAL FINANCIAL REPORTS OF MAJOR POLITICAL PARTIES AND BLOCS IN THE UKRAINIAN 1998 PARLIAMENTARY ELECTIONS

Figures are in Ukrainian hrvynia (UAH).

Party or bloc	Total campaign budget	Received from corporations	As % of all income
Hromada	190.132,00	n/a	n/a
Green Party	1.128.487,50	1.127.487,50	99,9
Communist Party	24.934,60	2.491,10	9,9
Labour & Liberal Bloc	705.935,00	705.935,00	100
United Social Democrats	529.900,00	529.900,00	100
Party of Regional Renaissance	793.568,90	754.802,90	95
Agrarian Party	125.000,00	101.000,00	80,8
People's Democratic Party	1.915.936,30	1.915.936,00	100
All-Ukrainian Workers' Party	56.558,10	56.338,10	99,9
National Front	7.401,00	n/a	n/a
Socialist & Peasant Bloc	106.967,00	20.000,00	18,7
Working Ukraine Bloc	406.600,00	386.600,00	95

Sources: Central Election Commission, in *Holos Ukrainy 57* (1807), 26 March 1998.

donors. Many CEE countries have also prohibited corporations with shares belonging to the state or local government and **trade unions** from making political contributions. A number of CEE countries have banned **anonymous contributions**, while a few limit the amount that can be given anonymously. Anonymous donations cannot exceed 25 per cent of total party income in Bulgaria and in Lithuania are limited to USD 25 each.

3.4. Foreign Contributions

When there are political disputes concerning the territorial boundaries of a state and/or differences concerning who has the right to citizenship in that state, then the issue of foreign influence becomes very delicate. Because of their recent tragic history, most of the post-communist countries are sensitive to external political influences. Thus, in CEE one of the most common regulations is a partial or complete ban on contributions from foreign sources.

The most common limitation is a prohibition on funding from foreign governments, foreign citizens and international companies. One interesting exception is **Lithuania**, where political parties and political organizations may be funded by Lithuanian citizens resident abroad and political parties may establish branches abroad in Lithuanian communities. The important role of international assistance in the post-war restructuring of **Bosnia and Herzegovina** also explains why certain foreign contributions are permitted.

In practice it is relatively easy to circumvent these regulations through the use of party foundations and phantom companies. With foreign investment rising sharply the regulations have proved to be anachronistic and impossible to enforce, as both foreign investors and political actors seek to gain advantage through the giving of reciprocal favours in the rapidly changing landscape of political and economic transition. This was especially the case during the first years of the transition, when foreign investors made significant contributions to the financing of political parties.

Foreign foundations (particularly the German *Stiftungen*) and international organizations are a different case. Their impact has been particularly important. However, this support has mostly been in the form of subsidies in kind – training, consultancy, travel grants and very occasionally equipment.

3.5. State Subventions

Public subsidies for political parties have already become a dominating feature of most stable democracies. They have been in operation in various forms for decades. Even so, the debate on **direct subsidies** continues to this day. In Western European democracies generally "subsidization has passed through three structurally similar but overlapping stages of implementation". For Nassmacher, the first

step (1954–1974) was the "stage of experimentation"; then the Western democracies (West Germany, Austria, Sweden, Italy) entered the second phase (1967–1982), the "stage of enlargement"; and the last stage (from 1982), has been the "stage of adjustment" (Nassmacher 1989:238–241). The same process can be observed in certain post-communist countries (e.g., Poland). In general, for the new democracies of CEE direct public funding is an almost standard feature; **Belarus**, **Latvia**, **Moldova** and **Ukraine** are the only countries among those considered here where political parties receive no direct support from the state. However, the precise pattern of state subvention varies considerably, and the levels of direct public funding in the CEE countries differ significantly.

3.5.1. Direct Public Subsidy

In several countries the level of public subsidy is notably low. In **Bulgaria**, according to Daniel Smilov, "The financial state support was most significant in the first years of the transition period: it was gradually scaled down, and in the last general election became largely symbolic. This is partly explained by the financial collapse of the state at that time (spring 1997)" (Smilov 1999:5). In 1991 the Ministry of Finance provided state subventions, which were allocated to the parties, coalitions and independent candidates who won parliamentary seats in the general elections (Decision no. 317 of 16 September 1991 on the funding of the election campaign). Parties and coalitions which had won over 50.000 votes in the Grand National Assembly elections were granted BGL 3.600.000 in advance. Moreover, the parties and coalitions could also make use of short-term interest-free loans from the budgets up to a maximum of BGL 3.600.000 for a separate party or coalition. After the elections the parties and coalitions received additional funds depending on the number of parliamentary seats won. The total sum which a party or coalition obtained from the budget was BGL 30.000 for each national representative. Independent candidates who were elected received additional funds amounting to the difference between BGL 30.000 and the sum obtained in advance. The same regulations applied to the 1994 and 1997 National Assembly elections; however, there was no full compensation for the inflation effect.

In the **Russian** 1995 State Duma elections, the total amount of direct public subsidies distributed to the electoral blocs was a little over USD 1 million – ca. 6 per cent of the total funds raised (ca. USD 16 million). Thus, 43 registered electoral associations received ca. RUR 115 million (USD 23.255) each (Russian Central Electoral Commission 1996). During the 1996 presidential elections each of the 11 registered candidates received RUR 300 million (ca. USD 60.000) of direct subsidies, which accounted for only 4,46 per cent of the total candidates' income (RUR 73.977 million) (Russian Central Electoral Commission 1996). In the Duma elections of 1999 direct state subsidies to all political parties combined rose to RUR 118.185.000 (ca. USD 4,6 million). Even individuals received direct state subsidies – a grand total of USD 38,91 each; this accounted for 0,06 per cent of their total spending allowance. However, the introduction of direct state subsidies for individual candidates did nothing to change the predominantly private funding of candidates and parties.

During the 2000 presidential elections money was allocated to all registered presidential candidates by the CEC not later than 40 days before voting day. Thus, each of the 11 candidates running for president received RUR 400.000 from the federal budget (ITAR-TASS 29 February 2000).

In **Poland** the financing of political parties from the state budget has a long and inglorious tradition, perfectly exemplified by the illegal financing of the Polish United Workers Party (PZPR) by the state. In 1989 the first Solidarity government revealed the existence and the amount of budget subsidies allotted in 1989 to the Communist Party and its allies. These revelations, coming at a time of severe economic crisis, were greeted with deep and wide-spread public anger (Winczorek 1990:13). Partly as a result of the public mood, direct state financing was not introduced by the Law on Political Parties of 1990. The first step towards state subsidy of political financing was taken with the Electoral Law of 1993, which introduced state reimbursement of electioneering expenses. Thus, parties' election committees received the equivalent of ca. USD 7.650 for each deputy elected to the two chambers. After the 1997 general election the treasury allocated a total of USD 4,1 million to the individual election committees. The two main parties, Solidarity Election Action (AWS) and the Democratic Left Alliance (SLD), received ca. 79,3 per cent of this, amounting to USD 7.350 for each elected deputy. Thus, the AWS, with 201 MPs and 51 senators, received USD 1,85 million and the SLD, with 164 MPs

and 28 senators, received ca. USD 1,4 million. The other four parties had to divide proportionately the sum of USD 0,8 million.

Public subsidies accounted for only 4,75 per cent of the total declared income of the PSL in 1997 and 4,44 per cent in 1998. In 1998 public financing accounted for 11,63 per cent of the UW's total income. The Labour Union (not represented in the current parliament) recorded public funding as its main source of income. However, as a result of the political finance reforms of 2001, a system of considerable public financing was introduced. It is estimated that these new subsidies may cost the state budget ca. USD 14,5 million in 2002.

In **Lithuania** political parties and political organizations represented in the parliament (Seimas) are entitled to subsidies from the state budget. According to the law on funding of political parties and political organizations of 1999, the state subsidy is allocated to those parties which have received at least 3 per cent of all votes cast in the Seimas and municipal council elections: The budget is distributed according to the results of these elections in proportion to the number of votes received by the parties' lists. However, the subsidy cannot exceed 0,1 per cent of state budget expenses.

The role of state funding for campaign expenditure is clearly evident in the **Czech Republic**. According to the Electoral Law of 1995 (Law no. 247 on Elections to the Parliament), state financial assistance is granted only for elections to the Chamber of Delegates and to those political parties and coalitions that have obtained 3 per cent or more of valid votes cast. These electoral blocs receive CZK 3 million per year plus an additional 100.000 for every further 0,1 per cent (up to 5 per cent of the vote) per year. The contribution for each parliamentary seat obtained amounts to CZK 500.000 per year. Moreover, each party which obtained more than 3 per cent of votes receives from the national budget a payment of CZK 90 per vote. After the 1996 general elections the successful Civic Democratic Party (Obcanska Demokraticka Strana, ODS) of Vaclav Klaus received ca. CZK 161 million (ca. USD 6 million) from the state budget. Also, in the parliamentary elections of 1998 a significant subsidy, amounting to CZK 174 million (ca. USD 5,5 million), was allocated to the victorious Social Democrats.

According to the laws on the operation and functioning of **Hungarian** political parties (no. XXXIII of 1989 and no. LXII of 1990), a subsidy is allocated from the national budget to any party which gains at least 1 per cent of all the votes cast in parliamentary elections. First, 25 per cent of the total funds provided by the national budget for the support of political parties is distributed equally among the parties represented in parliament. The remaining 75 per cent of funds is distributed to parties on the basis of numbers of votes gained by the parties or their candidates in the first valid round of parliamentary elections. However, support from the national budget may not exceed 50 per cent of a party's income, and a party must refund the excess if it is determined that support has exceeded 50 per cent. In the 1998 parliamentary election campaign 3.873 candidates also received state funding to the value of HUF 100 million, which was determined by the parliament. Every nominating organization was entitled to use a part of the support proportionately to the number of its nominations. Independent candidates were entitled to the same amount of support. According to the parties' published reports, the pre-election state subsidy alone accounted for ca. 7 per cent of total expenditure (HUF 1.438.000.000, ca. USD 7 million).

In practice, the state funding of political parties is an important factor in the operation of Hungarian democracy. Already in 1990 it accounted for 93 per cent of the Independent Smallholders' Party budget, 88 per cent of the Christian Democratic People's Party budget and 24 per cent in the case of the Hungarian Socialist Party. Well-documented records for 1995 only confirm the significant dependence on the state of six of the parliamentary parties. Parties received between 18 per cent (Fidesz) and 90 per cent (Alliance of Free Democrats) of their total income in the form of state subsidies.

3.5.2. Indirect State Subsidy

Indirect state subsidies have contributed significantly to party financing in CEE countries. There are various kinds of indirect subsidies, but two are of particular importance:

- free broadcasting; and
- subsidies for parliamentary groups.

First, of the countries studied, **all have free access to the national or private mass media.** In most of the CEE countries the amount of air time parties are entitled to

is decided in a manner which ensures that principles of equality are maintained between presidential candidates and political parties.

In **Bulgaria** during presidential elections half the air time (60 minutes per week) is distributed between the lists for president and vice-president registered by the political parties and coalitions represented in the National Assembly, pro rata to their representation. The rest of the air time is distributed equally to the lists for president and vice-president registered by political parties and coalitions not represented in the National Assembly or by nominating committees, with a maximum of five minutes per list. During general election campaigns the national mass media Bulgarian Television and Bulgarian Radio allot time for political debates twice a week (90 minutes on television and 120 minutes each for the two radio programmes). Time for debates is also granted twice over the entire election period to those extra-parliamentary parties and coalitions which have registered lists in at least one-third of the constituencies. Moreover, under a Grand National Assembly decision of August 1991, on the first and last days of the election campaign Bulgarian Radio and Bulgarian Television broadcast under equal programme conditions and up to a limit of five minutes the election addresses of all parties and coalitions which have registered lists in at least one-third of the constituencies.

Political parties contesting elections in the **Czech Republic** are allotted a total of 14 hours of television time, divided equally between the parties. However, parties cannot buy any additional time for political advertising.

In **Lithuania** all candidates for the office of president have equal opportunity to use the state mass media free of charge for the purpose of campaigning. The actual duration and time of radio and television programmes used for each candidate's campaign are decided by the Electoral Committee in coordination with the radio and television administrations. Candidates may use the time allotted to them in the state mass media themselves or they may permit political parties or political organizations indicated by them or other specified individuals to campaign for them at the times fixed.

In **Poland**, during a general election parties have the right to broadcast their election programmes at no cost on both television and radio. On nationwide channels the total time allowed for broadcasts for all parties is 15 hours (Polish Television) and 30 hours (Polish Radio), while on regional channels the total time allowed is ten hours (Polish Television) and 15 hours (Polish Radio). In addition to the free time allotted for the broadcasting of election programmes, each election committee may broadcast paid election programmes on public and non-public radio and television up to a certain limit. Rates charged may not exceed 50 per cent of those charged for commercials. Free access to state radio and television is also granted during presidential elections, although the number of candidates in the 1995 elections made it difficult for the National Committee for Radio Broadcasting and Television to allocate time for the presentation of every candidate. In the 2000 presidential election, given the average commercial cost per minute of advertising on television and radio, a financial equivalent of subsidy to all the candidates amounted to PLN 30 million (USD 7,5 million) (Lubelska 2000:2267). The importance of these subsidies in conveying party messages is particularly evident in the case of smaller parties, which would otherwise be denied this opportunity. For Kopecky, "The mass media in east–central Europe seem to provide a more effective channel of communication between the party and citizens than would a developed party organization" (Kopecky 1995:521).

In **Russian** presidential elections the election law gives each candidate 80 minutes of free air time on work days on television and radio. This saves each candidate ca. RUR 10 million in campaign funds. A registered candidate can choose the form of the election campaign, but half of the free air time must be given to televised debates between contenders. The campaign is also broadcast by regional television. Moreover, candidates can also buy time on both private and state-owned television channels.

Despite the fact that free air time is provided for political parties in all the countries surveyed, **production costs have to be covered by the parties**. The production of professional television "spots" involves dozens of professional political consultants and advisers. In effect, all political parties have to spend substantial amounts of money on their free broadcasting as media campaigning becomes more competitive in CEE countries.

Second, an important source of money for CEE parties is the **subventions allocated to parliamentary caucuses and individual parliamentarians** (excluding salaries) (Lewis 1998:145–149). There is government funding of party groups in parliament or individual

TABLE 11.

SUBSIDIES FOR PARLIAMENTARY GROUPS IN POLAND, HUNGARY AND THE CZECH REPUBLIC, 1995–1996

	Party	Amount in USD million
Poland [a)]	Democratic Left Alliance	3,980
	Polish Peasant Party	3,220
	Freedom Union	1,522
	Labour Union	0,761
	Confederation for Independent Poland	0,312
	Non-Party Reform Bloc	0,293
Hungary [b)]	Alliance of Free Democrats	2,186/1,501
	Hungarian Socialist Party	2,156/2,293
	Hungarian Democratic Forum	1,933/1,022
	Independent Smallholders	1,228/0,848
	Fidesz	1,062/0,740
	Christian Democratic People's Party	0,951/0,742
Czech Republic [c)]	Civic Democratic Party	2,275
	Social Democratic Party	2,018
	Communist Party	0,764
	Christian Democratic Union	0,611
	Association for the Republic	0,611
	Civic Democratic Alliance	0,471

a) State funding of parliamentary clubs and circles, 1995, total amount allocated to support the activities of parliamentary clubs, circles and their members as well as the sum of deputies' allowances and expenses for running constituency offices. *Source:* Gebethner, Stanislaw. "Problemy Finansowania Partii Politycznych a System Wyborczy w Polsce w Latach 90." In *Historia, Idee, Polityka*, edited by F. Ryszka et al. Warsaw: Wydawnictwo Naukowe Scholar, 1995:431.
b) State assistance for parties, 1994/95. *Source*: Lewis, Paul. "Party Funding in Post-Communist East–Central Europe." In *Funding Democratization: Perspectives on Democratization*, edited by Peter Burnell and Allan Ware. Manchester: Manchester University Press, 1998:145–149.
c) State funding for parties, 1996. *Source*: Lewis (1998):145–149.

legislators in all CEE countries; however, it should be pointed out that the levels and methods of funding differ. Generally, grants for party representation in parliament are a perfect supplement to the party's central and local offices, and can also be used for campaign activities. In Poland during the 1991 campaign the SLD officially received PLN 10 million from its own parliamentary caucus, and these essentially illegal practices still go on in a more indirect way (Polish National Election Committee Communiqué 18 February 1992). Sakwa describes this practice in Russia:

> The law allows a deputy to employ between one and five assistants: The CRRF (the Communist Party) has established that each communist deputy will have five assistants, one in Moscow and the other four in the regions. The latter are usually fulltime party officials… With their salaries paid from the state budget, the 800-odd assistants to the communist deputies are effectively the organisational core of the party. Assistants, moreover, have the right to free public transport, offices in the parliament building, and access to working documents and to other state institutions (Sakwa 1998:150).

Political parties would not be able to operate adequately without access to these parliamentary resources. In Poland, political parties with parliamentary representation receive money through their MPs' and senators' offices for running their local offices, as well as the necessary equipment for operating these offices, and a certain number of postage-free envelopes for parliamentary correspondence. By 2001, the aggregate sum of state money for parliamentary parties amounted to PLN 55,75 million (USD 13,9 million). In countries where direct subsidies to political parties are small, these indirect subsidies play an important role for extra-parliamentary activities.

4. Political Money and Corruption

One does not have to look to Central and Eastern Europe to find plenty of examples of corruption linked with political funding. Western Europe has been

severely affected in recent years by scandals and cases of proven wrongdoing. Bettino Craxi, prime minister of the longest-lived government in Italy's post-war history, claimed: "What needs to be said, and which in any case everyone knows, is that the greater part of political funding is irregular or illegal" (Porta and Vannucci 1999).

Concerning CEE it is too early to give a proper assessment. However, a preliminary review reveals several points.

Political corruption is a prominent issue. **Illegal funding of politics undermines the democratic system**, and the degree of political corruption in certain post-communist countries can be frightening. There is a problem in distinguishing personal "sleaze" from general political corruption: Money obtained corruptly by politicians for their private use may well be used to fund their campaigns, in which case we move into the sphere of systemic corruption of political finance. The following is a list of such cases; however, it has not been shown in all of these that the money was used for political rather than private purposes.

In the Czech Republic, in February 1998, Jiri Skalicky, the deputy prime minister and minister for the environment, resigned as a result of a political scandal concerning secret, anonymous donations allegedly made to the Civic Democratic Alliance (ODA) by Czech companies via an organization registered in the Virgin Islands (*Keesing's Contemporary Archives* (44) 42686, February 1998). Moreover, Swiss officials recently confirmed that in 1995/1996 the ODA received ca. USD 1 million into its illegal Credit Suisse account. According to official documents, CZK 45 million were transferred using the Czech Corporate Bank (CSOB) and the Foresbank to the account of the ODA party treasurer, Ludvik Otto (www.idnes.cz). The party then used the money to pay for its 1996 election campaign. New investigations should check whether the Dutch company TelSource, successfully participating in the privatization of Telecom, the Czech telecommunications company, was involved in the transfer.

In Poland, according to evidence gathered by Office of the State Protection in 1992, in January 1990 two special envoys of the Communist Party of the Soviet Union (CPSU) handed over USD 1,2 million to the Polish Communist Party's First Secretary, Mieczyslaw Rakowski, thereby violating Polish currency law. In February 1990 Leszek Miller and the party treasurer Wieslaw Huszcza asked a member of the Politburo of the CPSU, Alexander Yakovlev, for an RUR 50 million loan to the SDRP Economic Agency, offering to discharge the debt in the form of goods. The Social Democracy of the Republic of Poland (SDRP) leadership also offered the Soviets their Western contacts. The fate of the loan and the joint CPSU–SDRP business activity still remain unclear, and the post-communist Minister of Justice, Jerzy Jaskiernia, dropped the investigation (*Gazeta Wyborcza* 12 January 1996 and 25 November 1996).

In November 1995 the General Prosecutor's Office of the Russian Federation investigated the transfer, sanctioned by the prime minister, of USD 10 million and RUR 75 billion (ca. USD 16,7 million) to Russian public television (ORT). It appears that the Russian Government paid with state budget money for the governing bloc's campaign advertisement. Moreover, in the 1996 presidential elections prominent enterprises which had not sponsored Yeltsin's campaign sufficiently were declared bankrupt and insolvency procedures were initiated against them. At the same time presidential supporters were forgiven for tax evasion.

After the 2000 presidential elections in Russia, Boris Berezovsky accused President Putin of using profits from the Swiss-based firms Andava and Focus Service, both working with Aeroflot, to finance the pro-Kremlin Unity (Yedinstvo) party and the presidential campaign. Moreover, Berezovsky acknowledged that he had transferred cash from Aeroflot to "fund the presidential campaign" (www.cnn.com/2000/WORLD/europe/11/16/russia.media).

In 2000, a Geneva court convicted former Ukrainian Prime Minister Pavlo Lazarenko of money laundering and confiscated USD 6,6 million from his Swiss bank account. Lazarenko accepted two charges of money-laundering in which he, according to his lawyer, "in 1993–94 confused his public office of a regional governor and private commercial interests". Moreover, the government of Antigua and Barbuda announced that Lazarenko's bank accounts had been used for laundering USD 80 million. Now in prison in San Francisco, Lazarenko faces charges of laundering USD 114 million allegedly stolen while in he was office (dailynews.yahoo.com/h/nm/20000630/wl/ukraine_lazarenko_dc_1.html).

In Poland in 2002, a film producer and media entrepreneur, Lew Rywin, tried to solicit a bribe from Agora, the publisher of *Gazeta Wyborcza*, of USD 17,5

million, offering to influence changes in the broadcasting law. The offer included lobbying the government for a favourable legal regulation allowing Agora to buy Poland's largest private television company, Polsat. The money, calculated at 5 per cent of the estimated value of Polsat, was intended for the use of the ruling SLD. On 27 December 2002, *Gazeta Wyborcza's* editor, Adam Michnic, publicly revealed Rywin's offer, exposing this very serious political scandal, which also involved one of the SLD leaders and the chairman of the public television channel Polish Television (TVP), Robert Kwiatkowski (RFE/RL 14 January 2003). It is assumed that Rywin's company, Heritage Films, has been used on many occasions to channel money from the public channel TVP to the SLD.

It is easier to describe the hundreds of political funding scandals in CEE than to analyse their causes, especially since the countries which are under consideration here are scaled differently according to different indexes such those produced by Freedom House, Transparency International and the World Bank.

Nevertheless, the links between political finance and political corruption in post-communist countries have certain distinct features. In general, in CEE there are two major characteristics of illegal funding:

- the legacy of communism and **abuse of state facilities**, and
- the motives of contributors during the **rapid transition**.

First, to understand why the degree of irregular funding in CEE is apparently higher than that in Western Europe, we should analyse the final years of communism and the values that were transmitted into the post-communist world. The economic and political climate into which post-communism was born was less than optimal for political parties' raising their funds in a very transparent way. In the late 1980s and early 1990s a number of informal ties between party–state functionaries and private business people arose. There was a massive flow of people from the political and economic establishment into the private sector. In most of the countries in the region the former communist *nomenklatura* converted itself from apparatchiks to "entrepreneurchiks". These were allowed to establish enterprises, shops and brokerage agencies but, most importantly, they became members of the boards of trustees of the giant corporations and main banks.

Moreover, in most post-communist countries the legal framework did not recognize the problem of irregular and illegal political finance for a long time. Indeed, countries regulated some aspects of money in politics (for example, donations by foreign and state enterprises) but this was completely new ground. They had little previous experience in reporting and enforcement. From the legalistic point of view, scandal related to political finance in many of its forms could not be classified as crime, but rather as malfeasance or misfeasance.

In addition, as far as raising money for election campaigns and routine party activities was concerned, some practices of patronage from the old regime have survived, particularly the abuse of state facilities, and especially state enterprises. The central characteristic of political funding in the communist period was that political money was assured for the ruling party as a product of its close links with the state. Instead of engaging in grass-roots initiatives and concentrating on recruiting members, the new CEE parties displayed a **high level of dependence on public offices**, essentially turning them into profit centres. The uncontrolled expansion of parties' financial and economic bases caused a profound "politicization" of the economy.

At the beginning of the economic transition, in trying to obtain the necessary resources political parties exploited **state resources** to a much greater extent than private donors. The fact that post-communist political parties came to rely heavily on contributions from state enterprises is not surprising if we consider the environment in which these parties were operating. In the first place, private contributors were few and lacked individual wealth. This caused parties to maintain and consolidate their relationships with the bureaucrats still in charge of state companies who, in the immediate period after the change of regime, were the people in control of economic resources. In the second place, the change in the political landscape of the early 1990s caused the need for financial support of political parties to be matched by the need of bureaucrats to secure support from the new ruling class of post-communist politicians.

Today's concentration of ownership of former public assets in the hands of past members of the *nomenklatura* and the survival of state firms and sectors where reform has been slow or biased in a predetermined direction can be partly traced back to these developments. In

effect, state enterprises, which were still the main financial players on those fragile markets, became the greatest informal sponsors of political parties. Additionally, the attempts to control state companies by introducing relevant regulations did not produce the desired effect. Attempts like the setting up of phantom companies (which contributed to campaigns but were largely funded by state firms) seemed to meet with significant success.

A related reason for the high level of illegal funding in CEE is a "**corrupt mentality**" – people's values, attitudes and behaviour. People did not change their attitudes during 1989–1991; they only modified old patron–client relations. They still treat the resources of the state institutions they direct as their private property. Such resources "cost" very little and can be "sold" very easily (e.g., confidential trade secrets). Moreover, the basic concepts of conflict of interest and political accountability are not recognized by the political elites of the CEE countries. The fact that the power stakes at issue in competitive elections are so high makes the temptation to corrupt fund-raising great in all CEE countries.

Second, in most cases the **motives** behind contributions to CEE political parties reflect the worries of representative governments during the end of the 19th and at the beginning of the 20th centuries in Western democracies. Writing in the 1930s, Pareto suggested that a major motive for political contributions would be the hope of **pay-offs** in the shape of licenses and government contracts. He observed: "Almost all the great fortunes made in recent decades have come from government concessions, railway construction contracts, and enterprises subsidized by the state or protected by customs tariffs" (Pareto 1935:1604).

The similarities between earlier waves of democratization and the "fourth wave" are striking. Whereas the motives of donors to government parties are in most cases no different in CEE countries from those in the current Western democracies, a much higher proportion of the total amount of political money is accounted for by payments to politicians and civil servants for the purpose of obtaining specific pay-offs.

5. Control over Political Finance

Political finance is influenced by and significantly influences the relations between parties, politicians, party memberships and the electorate – relations which are a matter of profound importance to the quality of democracy. Yet, according to one Russian newspaper, "Even FSB [the State Security Service, formerly the KGB] does not know the candidates' real budgets, not to mention poor Central Electoral Commission, regional commissions or voters. They say in main regions a governor's seat would cost you $3–5 million. In smaller or poor regions it could be about $500.000. It is true and it is not" (www.stringer-agency.ru/020 gazeta/1000008/011/article/default.asp, 1 February 2000).

Different CEE countries use different strategies in order to enforce public control of political money. In the first stage of democratic transition most of the CEE countries adopted a more laissez-faire stand towards the control of political finance. Liberal regulations were a natural response to the former communist system and represented a rejection of its restrictions. Regulations were symbolic only, so that there were few restrictions on parties in seeking sources of finance. The laws often failed to provide an independent controlling agency.

Yet the extent of the regulations varies considerably among the CEE countries, as does their enforcement.

The **reporting of political expenditures** is a feature common to all the countries reviewed here. However, there are different approaches to the control of political finance. Almost all the countries require that **party** and **presidential candidates'** accounts be reported. In most of the countries reporting takes place on an annual basis; in **Russian** presidential elections and **Ukrainian** parliamentary elections it is three times during the actual campaign. Most of the countries also have **disclosure** rules concerning **parliamentary candidates**, and in two-thirds of the CEE countries lists of **donors** must be revealed. Regulations concerning disclosure of **private contributions** are a common feature of all the political finance systems surveyed. A number of CEE countries have a **threshold** below which donations do not have to be reported; the levels of the threshold differ substantially between countries.

The CEE experience confirms a few general points.

First, theoretically well-intentioned regulations requiring the production of financial statements are not necessarily effective if they fail to cover **all aspects of party funding**. It is of little value to demand disclosure only of particular categories of political financing. This will merely encourage the use of sources of money that are not subject to disclosure.

Second, the lack of an independent enforcement agency is a most serious weakness that undermines the working of a successful system. Strong enforcement machinery can be used by a regime to deprive the opposition of its right to participate effectively in the electoral process. Selective, partisan enforcement of campaign finance regulations serves to reduce electoral competition and can lead to long periods of one-party or individual rule.

Third, the principle of openness should not be the deciding one. Total disclosure does not have to be an essential component of all election finance systems. In countries that are not fully democratic, strong control of political funding and certain administrative restrictions might suppress opposition. The delicate process of democratization, even when facing a struggle with political corruption, requires a certain degree of privacy and freedom from harassment. The creation of an oppressive political finance system which is not controlled by a non-partisan enforcement agency might undermine the whole idea of free and fair elections, as harassment is only too likely in such conditions. It is true that during the transition period the party in power tends to use the state apparatus to its advantage. Thus, party finance enforcement with a strong authority might not be an optimal formula for all newly democratizing countries.

6. Conclusion

The formation of political parties and the functioning of a mature party system are institutional developments required of all modern democracies. The central element of a party system is the existence of rules and procedures governing the funding of parties. For Heard, "Deeper understanding of political money means deeper understanding of representative government" (Heard 1960:11–12).

It has been suggested that in Central and Eastern Europe, and particularly in post-Soviet countries, the lack of diverse sources of money is the major problem. A lack of diverse sources indicates that CEE parties have not yet reached high levels of institutionalization. They are characterized rather by irregular flows of funds and relatively non-diversified financial sources. This may lead to lack of party autonomy and the risk of external control.

The small income from membership subscriptions is one of the characteristics of the region. Furthermore, in most CEE countries popular participation in the form of small donations is as a rule not encouraged.

Large donors play a special and disproportionately large role in CEE political finance, often more important than that of direct state funding.

The different levels of dependence on public funding have emerged as one of the main dissimilarities between the post-communist regimes. In fact, for most post-communist countries, public funding in the early stage of transition was less significant than expected, and private donations or even "party taxes" played a more valuable role. Moreover, in the semi-authoritarian regimes, the lack of significant public funding served the evident purpose of starving the opposition of resources. In general, most post-communist countries went through what Nassmacher classifies as the first or second stage of public funding implementation, namely "experimentation" and "enlargement" (Nassmacher 1989:238–241).

Analysis of party financing in CEE has not yet revealed whether close linkage with the state has removed the incentives for parties to establish a stronger relationship with their supporters. However, the existing data suggests that the lack of state subsidies creates a great opportunity for corporations and wealthy individuals to exercise external control, "capturing" political parties and their policy-making capacities.

Finally, political finance in CEE not only raises the problem of the relationship between politics and money; it may also have a decisive effect on the very operation of democracy (Council of Europe 1989). Thus, the structure of political funding in countries in transition is an important area of democratization. The experience of the last decade has demonstrated that the funding of political parties is yet another aspect of the particular problem of building party systems in the post-communist world. It is much easier to introduce free elections or to abolish censorship than it is to ensure that all the political actors are competing on a level playing field.

The CEE case proves that, in countries undergoing political transformation, there ought to be a clear set of rules and strict control over political funds. Since political parties are not private businesses but perform a public function, their financing is a matter of public interest. Unfortunately, in most of the CEE countries the issue of legal regulations on the activity of political parties and its finance-related aspects did not receive proper attention in the first years of transformation. The

issue of party funding and campaign finance was, and in some countries still is, ignored as a constitutional matter affecting the democracies. Indeed, money matters for democracy because much of democratic political activity simply could not be realized without it.

Endnotes

[1] Huntington claims that Central Eastern Europe was part of a "third wave" of democratization (see Huntington 1991) but his definition is disputed by Whitehead (1996), who argues convincingly that it forms part of a fourth wave following the fall of communism in Eastern Europe.

[2] Where USD conversions are inserted, these are provided by the author. Since so many of the figures are only in USD, it has not been possible to make conversions to International dollars.

[3] The large number of political advisers is the result of the large number of high-level political posts in Poland. At the national level there are 13 ministries, seven central agencies, eight inspectorates, 16 central offices, and over a dozen other central departments. There are also provincial offices for some of these agencies. In addition, there are 17 provincial governors, appointed mostly on a political basis by the prime minister. See www.kprm.gov.pl.

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