

Party Funding in Continental Western Europe

KARL-HEINZ NASSMACHER*

The political systems of the established democracies of continental Western Europe reflect a variety of experiences. France is the oldest and Spain the most recent addition to the community. Spain should therefore be the most interesting case for newly emerging democracies to study. For institutional arrangements, however, the older democracies may be better suited to serve as benchmark in the field of political finance.

This chapter examines party funding in France, Germany, Italy, the Netherlands, Spain and Sweden.

1. Politics on the European Continent: Similarities and Differences

Institutionally speaking, parliamentary democracy prevails with specific modifications, such as semi-presidentialism (France), federalism (Germany), one-party dominance over decades (Italy), specific cleavages of class and religion (Netherlands) and regionalism (Spain). Proportional representation is common, although with variations – from Spain, where majorities are reinforced, to the Netherlands, where no manufactured majorities exist. Only the French Fifth Republic applies a majority voting system (requiring an absolute majority in the first round). In 1994 Italy changed to a truly mixed electoral system. In party financing a general pattern prevails in all European democracies – a mixture of private and public funding.

At the time of its transition to democracy, in the mid-1970s, Spain did not develop a party system deeply rooted in society. The two major parties, the (right of centre) People's Party (Partido Popular, PP) and the (left of centre) Spanish Socialist Workers' Party (Partido Socialista Obrero Español, PSOE), have alternated in power, but their combined membership is still less than 2 per cent of the electorate. Even after more than two decades of democratic rule, the state of political finance cannot be easily assessed. This is mostly due to the nature of the rules stipulating transparency and reluctance to implement them (see section 4 in this

chapter). Campaign funding is regulated by the LOREG (Ley Orgánica 5/1985 de Régimen Electoral General); rules for the current financial operations of national parties can be found in the LOFPP (Ley Orgánica 7/1987 para la Financiación de los Partidos Políticos). A separate Parties Law, the by-laws for both chambers of the national parliament, the annual budget and separate legislation by the 17 regional parliaments further complicate this multifaceted regulation (del Castillo 1989, 1994, 1998).

The Italian Republic, established after World War II, has often been characterized as a defective democracy because one leading conservative party, the Christian Democrats (Democrazia Cristiana, DC), dominated all the governing coalitions for roughly half a century. Since 1994 the party system has undergone continual upheaval. The former government parties, the DC and the socialists (Partito Socialista Italiano, PSI), which were involved in severe corruption scandals, disappeared and new parties arose. The Communists changed to a social democratic type of party, as their new name, Democrats of the Left (Democratici della sinistra, DS) indicates. There is no overall legislation concerning the structure and organization of political parties, which are legally still considered as private associations. The most striking feature regarding the regulation of party finance is the enormous gap between legal requirements and actual political practice. The initial legislation on party financing was passed in 1974 and amended to its present form in 1997 (law no. 2/97).

Political finance in France is greatly influenced by the semi-presidential system, combining (at the national level) popular elections for the presidency and elections for parliament. Because of the two-round electoral system, elections are more candidate-oriented. Devolution has recently changed the French political landscape. As a consequence, networks of clientelism at the local level have been reinforced and the funding of French politics has to take local affairs into consideration more than ever. Recently the rules for

* This chapter summarizes six of 12 case studies prepared for International IDEA by Ruud Koole (Leiden, the Netherlands) and Karl-Heinz Nassmacher (Oldenburg, Germany). The sections on France, the Netherlands and Sweden were written by Ruud Koole, the sections on Germany, Italy and Spain by Karl-Heinz Nassmacher. Ingrid van Biezen (for Spain), Yves-Marie Doublet (for France), Gullan Gidlund (for Sweden) and Enrico Melchionda (for Italy) added helpful suggestions which are gratefully acknowledged. Nevertheless final responsibility for all mistakes and errors rests solely with the author of this chapter.

political finance have been changed dramatically. In an atmosphere of political scandals involving senior politicians, all donations from private and public-sector companies were banned in 1995. At the same time, the amount of public money given to parties and candidates was increased substantially. What remains unchanged is the comparatively broad freedom of action granted to parties by the constitution of 1958.

In **Germany**, which was added to the democratic fold in 1949, the three tiers of government – federal, state and municipal – are tightly interlocked by federal legislation and through joint decision making by state governments. Party government is a fact of life for all three tiers. The legal term “party” as defined by the constitution and federal law does not include the penumbra of parliamentary party groups at the different levels (all of them heavily subsidized by public funds): parliamentary parties, party institutes (foundations) and other corollary organizations such as those for youth, students, women or local councillors, all of which are subsidized by different government departments at state and federal level. Details of the political finance regime are laid down in the constitution (Grundgesetz), in key rulings of the Supreme Court (Bundesverfassungsgericht), in the Law on Political Parties (Parteiengesetz) and in the Income Tax Code (Einkommensteuergesetz). These federal rules are applied to all party organizations at the federal, the state and the local level.

Sweden is characterized by a unicameral national parliament plus regional and local assemblies at the sub-national level. Since 1970 elections for all three levels have been held on the same day. The polity is a clear example of “party government”. Public policy is greatly influenced by political parties, which have strong ties with organized interests. For a long time the party system was dominated by the Social Democratic Party (Socialdemokratiska arbetarepartiet). However, since 1988 new parties, such as the Green Party (Miljöpartiet) and the Christian Democrats (Kristdemokraterna) have entered parliament. A special feature of party financing is the importance of public subsidies, including quite substantial amounts for sub-national party branches (see section 2.3). Data on overall income and spending of parties is difficult to get as a result of a traditional privilege of privacy and the different bookkeeping systems used by the parties (Gidlund and Koole 2001).

In the **Netherlands** the constitution does not

acknowledge political parties, but a new law now calls them “associations for which a label has been registered on the ballot paper”. The reluctance to acknowledge parties formally is the result of a specific history: For decades, up to the 1970s, Dutch society was characterized by its division into so-called *zuilen* or “pillars”. Parties were the political expression of these pillars. The dominant view at the time was that the state administration should stay aloof from the pillars as much as possible. When “pillarization” began to break up, the old parties could not rely on financial support from the pillars as automatically as before, but as a consequence of the old doctrine, state money was still given to party-affiliated organizations. Only after the ratio of party members to voters had dropped below 3 per cent were subsidies given directly to the parties, under the Law on State Subvention to Political Parties (1999).

2. Fund-Raising Strategies: Options and Practices

The constitutional freedom of action of parties in **France** is a major obstacle to obtaining details of the sources of party income there: Data on specific items is not available to the public. For the other countries compared in this chapter there are at least rough estimates.

The **Italian** parties report two major sources – **public subsidies**, which represent the major source, and **membership subscriptions**, which are generally less important. The clandestine element of political funding in Italy is believed to come either from corporate sources or from political graft, including assessments, kickbacks and “toll-gating”. In **Spain**, since the transformation the political parties have relied heavily on public funding. **Sweden** also stands out as having a high level of public subvention (see table 21). The overall income of the **German** parties relies on two major and two minor sources. Membership dues provide for about one-third, and a public grant accounts for another third. The final one-third is made up of donations and “assessments” – payments by office-holders (see table 18). In the **Netherlands** membership dues were most important until the 1990s (see table 19).

TABLE 18.

MAJOR PUBLIC AND PRIVATE SOURCES OF PARTY INCOME IN GERMANY

Year	Total party income (DEM m.) (1a)	Total party income (Int'l \$ m.) (1b)	Public subsidies (% of total) (2)	Private contributions (% of total) (3)	Assessment of office-holders (% of total) (4)	Membership dues (% of total) (5)	Donations (% of total) (6)	Small contributions (all in % of total income, col. 1a/b) (7)	Medium contributions (8)	Large contributions (9)
1984	497,4	360	38,36	55,27	9,61	32,17	13,49	n/a	n/a	0,7
1985	458,3	320	31,79	50,64	10,65	35,63	14,36	n/a	n/a	0,9
1986	516,4	360	29,90	65,34	9,99	33,44	21,90	n/a	n/a	2,0
1987	543,7	380	35,42	58,82	10,45	31,34	17,03	n/a	n/a	1,8
1988	482,2	330	30,32	64,43	11,86	35,59	16,98	n/a	n/a	1,5
1989	608,5	410	35,61	58,65	9,79	29,37	19,49	n/a	n/a	0,9
1990	1.107,6	730	no comparable data available for unification year							
1991	763,6	490	25,65	52,00	11,04	28,39	12,57	n/a	n/a	0,9
1992	647,5	400	29,03	63,37	13,17	33,85	16,34	n/a	n/a	2,2
1993	693,1	410	30,20	62,90	12,55	32,26	18,09	n/a	n/a	2,6
1994	882,8	510	40,18	52,48	9,86	25,33	17,30	44,92	6,51	1,05
1995	738,1	420	35,21	58,57	13,10	30,55	14,93	51,66	5,68	1,23
1996	719,7	400	31,93	62,94	13,49	31,49	17,97	55,76	5,86	1,32
1997	710,2	390	32,36	61,52	13,91	32,47	15,14	55,24	4,74	1,54
1998	836,1	450	28,93	63,20	11,90	27,78	23,52	53,42	6,87	2,91
1999	812,7	440	30,27	62,65	12,43	29,00	21,22	53,22	7,07	2,36
<i>Averages:</i>										
1984–89	517,8	360	25,2	58,9	10,4	32,9	17,2	n/a	n/a	1,3
1991–99	756,0	430	31,5	60,0	12,4	30,1	17,5	52,4	6,1	1,8

Notes: small = < DEM 6.000; medium = DEM 6.000–20.000; large = > DEM 20.000 (in 1987–1991 = > DEM 40.000). Col. 3 = cols 4 + 5 + 6 = cols. 7 + 8 + 9.
Source: Financial reports by political parties, published in Bundestags-Drucksache (parliamentary papers), most recently no.s 14/5050 and 14/5725.

2.1. Income from "Grass-Roots" Financing

Party income from members and small donors can be described as grass-roots financing. This is practically non-existent in Spain. As parties organize less than 2 per cent of the voters, the major parties' annual income from membership dues is only between 3 and 5 per cent of the total. In France, as well, membership of political parties is small – ca. 1,6 per cent of the electorate. Estimates from different sources assume that donations constituted 4–6 per cent of total party income and membership fees 8–22 per cent in 1995–1998. In all other countries membership dues and extra contributions from members and supporters are important to varying degrees.

This is still true for Italy and Sweden, and especially so for Germany and the Netherlands. Membership of political parties in Sweden, which was ca. 20 per cent of the electorate between 1960 and 1990, fell sharply in the 1990s, one reason for this being the abolition of collective trade union affiliation. The social democrats and communists in particular saw their income from

membership fees fall. In 1992 ca. 6 per cent of the income of the social democrats at the national level came from this source. Only Moderaterna (the Conservative Party) saw their income from their membership increase, from ca. 6 per cent of total income at the end of the 1960s to ca. 10 per cent in the early 1990s.

Although not all of it is grass-roots financing – membership dues and small donations – 85–90 per cent of all private political funds in Germany are raised from individuals. More than 96 per cent of all small contributions (up to DEM 6.000 (Int'l \$ 3.000) per person and year) which are raised through donations and membership fees ends up in the coffers of the six parties represented in the federal parliament (for an explanation of the use of International Dollars, please see *Methodology*). In the Netherlands membership fees are the main source of income for political parties. Between 35 and 61 per cent of their total income in 1995 consisted of regular dues paid by party members (with the exception of the very small Socialistische

TABLE 19.

**INCOME OF DUTCH NATIONAL PARTY HEADQUARTERS PLUS AFFILIATED ORGANIZATIONS,
1989 AND 1995**

Party	Membership fees as % of income		State subsidies as % of income		Other sources as % of income		Total income (in NLG)		Total income (in Int'l \$)	
	1989	1995	1989	1995	1989	1995	1989	1989	1995	1995
PvdA	62	54	14	17	24	29	10.418.799	6,5 m.	11.799.348	6,3 m.
CDA	64	61	17	21	19	18	7.276.343	4,5 m.	9.389.528	5,0 m.
VVD	61	55	25	31	14	14	3.980.471	2,5 m.	5.623.762	3,0 m.
D66	48	49	31	37	21	15	1.666.103	1,0 m.	3.631.173	1,9 m.
GL	n/a	35	n/a	25	n/a	40	n/a	n/a	2.539.490	1,3 m.
GPV	46	49	27	37	27	14	1.388.658	0,9 m.	1.554.477	0,8 m.
RPF	44	40	38	52	18	8	621.344	0,4 m.	1.059.846	0,6 m.
SP	n/a	5	n/a	10	n/a	85	n/a	n/a	3.692.600	2,0 m.

Notes: Figures exclude membership fees for sub-national branches and special organizations for local and provincial politicians.

The parties listed are those represented in the Second (150-seat) Chamber of the Dutch Parliament in 1994 except for some smaller parties which are not included. The numbers of seats held were as follows: Labour Party (Partij van de Arbeid, PvdA) 37 seats; Christian Democratic Appeal (Christen Democratisch Appèl, CDA) 34 seats; People's Party for Freedom and Democracy (Volkspartij voor Vrijheid en Democratie, VVD) 31 seats; Democrats 66 (Democraten 66, D66) 24 seats; GreenLeft (GroenLinks, GL) 5 seats; Reformed Political League (Gereformeerd Politiek Verbond, GPV, orthodox Calvinist) 2 seats; Reformed Political Federation (Reformatische Politieke Federatie, RPF, orthodox Calvinist) 3 seats; Socialist Party (Socialistische Partij, SP, extreme left) 2 seats.

Source: Koole 1997:156–182.

Partij, SP) (see table 19). If data on affiliated organizations had been excluded from the analysis this percentage would have been even higher (ca. 80 per cent for the major parties). (Any distinction between affiliated foundations and party organizations proper in the Netherlands is to a great extent an artificial result of the rules on state subvention to political parties. The income of foundations has therefore been consolidated with the revenues of the parties themselves. Otherwise, the degree of parties' dependence on state subsidies would have been invisible until 1999.) Money for the campaign chest comes mainly from extra donations by ordinary party members (Gidlund and Koole 2001).

In Italy, besides these sources, additional income is raised from events and festivals, publications, shareholding, interest on assets and ownership of property. The *tangenti* (kickbacks) scandal has added yet another dimension: Within some parties (especially the DC and PSI) factional leaders in clientelistic networks used funds corruptly obtained to buy membership cards (and thus intra-party power). Intra-party factions laundered income from graft into subscriptions "paid" for non-existing members. In France the income from rallies, meetings, conferences and events contributes ca. 20 per cent of total party income. In Sweden a special form of "most stable"

grass-roots financing comes from lotteries. The social democrats are especially successful in this respect: In 1997 lotteries raised SEK 54,4 million (Int'l \$ 5,7 m.), ca. 38 per cent of their total income.

Another source of party funding which is occasionally regarded as grass-roots financing is **assessments** – payments by office-holders. In Spain members of parliament (MPs) – representatives and senators – are subjected by both major parties to an assessment of up to 10 per cent of their salaries. For Italian parties the assessment depends on the size of the income from office and therefore on the level at which the office is held. Left-wing parties especially have a tradition of assessments. The Italian Communists and their French comrades used to compel their MPs to turn over their parliamentary income to the party and then receive the average salary of a skilled metalworker in exchange. The French Socialist Party (Parti Socialiste) also obliges its MPs to pay a monthly assessment to the party; the amount and the use to which it is put being decided by the party congress (Thiébaud and Dolez 2000:65). An additional fee (assessment, *Sonderbeitrag*) is quite common in Germany; data is given in column 4 of table 18. In the early 1980s an average of 18,5 per cent of the total income of the Social Democratic Party (Sozialdemokratische Partei Deutschlands, SPD) was

raised through the assessment of office-holders; in the mid-1990s this share had risen to one-quarter. The increase was the result of both a transfer of solicitations from parliamentary party groups to the external party organization (which after 1984 was entitled to provide a receipt for income tax benefits) and the effects of German unification after 1990, which provided the opportunity to assess the many more legislators and municipal councillors elected on SPD lists in East Germany. The German Greens (Die Grünen) follow this procedure even more intensively. It is also common with Dutch left-wing parties – the Partij van de Arbeid (Labour Party, PvdA) and GroenLinks (the GreenLeft, GL) – where elected and appointed politicians pay a certain share of their income from office into party coffers, but on a voluntary basis. Other parties also “suggest” that their politicians do the same. Today, the only party in the Netherlands which obliges its MPs to hand over their total salary (paid by the treasury) to the party is the SP. In exchange, SP parliamentarians receive a modest salary; this explains the high percentage of “other” income for the party in table 19.

In Sweden parliamentarians’ salaries are considered to be too low for such a procedure. In Italy the increasing costs of election campaigns and powerful field organizations have contributed to political corruption: Managers of state-owned companies expressed their “gratitude” to politicians who appointed them by donating large amounts of money to political parties, i.e., some managers simply “bought” their reappointment.

2.2. Income from “Plutocratic” Financing

In the past close linkages between parties and specific organizations often guaranteed parties institutional sources of funding. With the exception of Sweden, this source of income did not exist in the countries compared in this chapter. Although the relative importance of institutional contributions from the Swedish unions declined after the introduction of state subsidies, the social democrats continue to receive substantial contributions from the top level of the Swedish Trade Union Confederation (Landsorganisationen, LO), and from some individual unions. In a non-election year (e.g., 1992) LO gives ca. SEK 6 million (Int’l \$ 690.000) to the social democrats and in an election year considerably more (for example SEK 16,7 million (Int’l \$ 2,0 m.) in 1991). There has always been a close relationship between the social democrats

and the unions in Germany but there are no union contributions to the party. The same is true for the Netherlands after “de-pillarization”. Because parties in Spain are not formally linked to other organizations, there is no similar institutional source of finance there. Information concerning this kind of party income in France and Italy is not available.

Large donations have posed serious problems in Spain, Italy and France. Since 1985 Spain has tried to prevent plutocratic financing. Nevertheless, when in need of money the parties have found ways of approaching big donors. The most improper way is outright corruption through kickbacks and toll-gating. A more subtle strategy has been imported from abroad: Front companies affiliated with a party have charged businesses and banks which are interested in buying access to politicians or favourable decisions for bogus research papers, consultancy work or technical advice. It is clear that shareholders did not know of such political donations by their companies. Governing parties have sold their decision-making power; companies have paid a kickback (commission fee) of 2–4 per cent of the total value in return for a public works contract. The Guerra, Naseiro, SAS and Ceres affairs of the early 1990s brought details to light. The Spanish version of toll-gating took place when persons who had obtained a public licence from the regional government to run casinos in Catalonia were obliged to pay a fee to the party in power. There have also been cases of “insider trading” related to property development and local government contracts (del Castillo 1994:100–102, 104).

Despite the fact that legislation in Italy demands publication of corporate contributions in companies’ annual reports and parties’ balance sheets, it seems extremely difficult even to guess the true amounts of money parties raised from this source. In 1988 the public was first alerted to the extent of corruption. Kickbacks (*tangenti*) for public contracts went partly into private pockets, but a large part ended up in party coffers. The use of kickbacks had increased hugely since the 1970s. According to one estimate, in the 1980s it was equivalent to 75 per cent of all public subsidies. In the light of the *mani pulite* (“clean hands”) inquiry, which started in 1992, the funds illegally obtained amounted to some ITL 3.400 billion (Int’l \$ 2,6 billion) a year, at least ten times the total official income of all Italian parties combined (Bardi and Molino 1994:260).

France provides figures from official records. According to these, in 1993 donations from business circles made up only 13 per cent of parties' income. This official figure is generally believed to be far too low. Since 1995 candidates and parties in France have not been allowed to receive donations from private corporations or public-sector companies (*personnes morales*). Some observers, however, expect an increase of clandestine donations to parties and candidates, which would only intensify a practice that existed before 1995. Moreover, donations from businesses may be channelled through individual citizens. It goes without saying that politicians in power have easier access to funds than those in opposition. Especially in the field of town and country planning, industrial or commercial interests frequently coincide with the politicians' need for financial support. Many local enterprises operate in the construction industry, and it is very tempting for the party in power municipally to grant contracts in exchange for kickbacks (Pujas and Rhodes 1999). Exact figures for corruption are not available, and monitoring and control are rather poor. The first half of the 1980s saw at least 48 cases of legal proceedings involving allegations of illegal activities related to party fund-raising (*Frankfurter Allgemeine Zeitung* 3 December 1999).

In Germany, Sweden and the Netherlands plutocratic funding is only a minor problem. In Germany contributions from big donors used to be a major source for the right-of-centre parties in election years. This influence was almost completely gone by 1990. In recent years donations in excess of DEM 6.000 (Int'l \$ 3.300) per donor and year have contributed only a minor share (between 6,3 and 9,8 per cent) to the total income of all German parties (see columns 8 and 9 in table 18).

During the final weeks of 1999 various shady dealings concerning the funding of the Christian Democratic Union (Christlich-Demokratische Union, CDU) emerged for public debate. The sources of the bulk of these funds are still unknown. Some funds undoubtedly originated from interested money: an arms trade lobbyist, a big contractor of the national telecommunications monopoly and a businessman involved in the privatization of a federal housing company. Other sources have been alleged but not as yet established, including a state-owned French petrol company (Elf Aquitaine), an armaments procurement firm (Thyssen Hentschel) and funds left over from

previous scandals (e.g., that named after the Flick Concern, involved in illegal payments to political parties in the 1980s, or other illegally tax-exempted corporate donations). A parliamentary committee of inquiry has been looking into these allegations for about two years. It has found some indications of a variety of possible infringements in Germany and elsewhere but no final proof of anything.

Although donations to political parties are tax-deductible in the Netherlands, big donations from business circles hardly exist. Since the 1960s, donations from corporations have been considered taboo. Moreover, the Dutch system of neo-corporatist decision making, recently called the successful *poldermodel*, makes business donations less likely. Entrepreneurs and unions have direct access to political decision making and therefore do not need money in order to create a "positive climate" for their interests. In 1999, however, the conservative-liberal Volkspartij voor Vrijheid en Democratie (VVD) tried to break the taboo on donations to parties by publicly advocating the sponsoring of political activities. It remains to be seen whether this effort will be successful (Gidlund and Koole 2001).

In Sweden large donations used to be an important source of income. The details vary depending on ideological orientation. Until the introduction of state subsidies to political parties in 1965, Folkpartiet (the Liberals) and the Conservatives were almost completely dependent on business donations. In 1971, however, the Liberal Party itself decided to stop accepting direct donations from companies at the national level and in 1976 at all other levels, and the Conservatives made the same decision in 1977. After an electoral reform in 1998 (*personval* – choosing one candidate on a party list) opened the way to candidate campaigns, new questions arose as to the acceptability of corporate donations to individual candidates. Only the Conservative Party explicitly prohibited its candidates from accepting contributions from companies.

2.3. Income from Public Subsidies

All the countries compared in this chapter have made public funds available to parties, using the number of seats and/or votes as the criteria for distribution. In other respects the allocation processes differ widely. A base amount for each party, which is used in the Netherlands and on the sub-national level in Sweden, is not common. Sometimes additional state aid is given

to party sub-organizations (Sweden, Spain), to candidates (France, Italy), to party media (Sweden, Italy) or to party-affiliated foundations (Germany, the Netherlands). In most countries the money is provided practically without any obligation. Only Italy and Germany request partial approval by taxpayers or party supporters to legitimize public funding schemes. The **threshold** for access to such funding in Germany is lower than anywhere else in the world (see below). Sometimes the money given to party groups in parliament is seen as a party subsidy (Sweden); sometimes this is expressly excluded (Germany).

In **Spain** since 1987 annual grants have been given to national party organizations and to parliamentary party groups in both houses of the national parliament. National campaign aid and annual organization subsidies are allocated in accordance with three criteria: a fixed amount of ESP 2.564.000 (Int'l \$ 18.430) is paid for each seat a party has won in one of the two chambers of the national parliament; another ESP 38 (Int'l \$ 0,27) is paid for each vote in the election of representatives; and ESP 96 (Int'l \$ 0,69) is paid for each vote received in the election of senators. Only parties which win at least one seat in a multi-member constituency are eligible for these funds. This allocation formula favours the major parties. In 1998 the national budget provided for a total of ESP 10,14 billion (Int'l \$ 81,7 m.) as the annual grant towards current operations. Grants to caucuses in the 17 regional parliaments and financial aid towards campaign expenses incurred for regional and municipal elections complete the range of public subsidies (del Castillo 1989:176, 185).

The initial law on party financing in **Italy** was passed in 1974, and ever since the state has faced popular demands for the legislation to be modified. The problems are a lack of transparency and the fact that only parties with parliamentary representation have benefited from the generous state support. Although three referendums have been held on the problems, the law has not been entirely abolished. Since the 1993 referendum public subsidies have been officially geared only to electoral activities. To calculate and distribute the financial support, the number of Italian citizens is multiplied by ITL 1.600 (Int'l \$ 0,92). This fund is allocated to the parties according to the number of votes they obtained in the general election. Legislation also includes regulations in terms of state aid for radio stations and newspapers which are owned by political parties. In order to receive state aid for this purpose, the

media must have direct links to a party which has at least two MPs or one MP and one member of the European Parliament (MEP). The act of 1993 (no. 515/93) states that the total amount of this state subsidy must not exceed ITL 91 billion (Int'l \$ 52 m.). An act of 1997 (no. 2/97) regulates quasi-public funding by a tax "check-off". Every Italian taxpayer may choose to give up to 22 per cent of his or her income tax to the political system. These funds are distributed among all the political parties that have at least one seat in proportion to the number of votes obtained in the previous election. The total amount of money distributed may not exceed ITL 110 billion (Int'l \$ 63,2 m.). This subsidy is called a "tax check-off" because each taxpayer is given the opportunity to decide how a specific part of public revenue should be spent.

In **France** state subsidies have been available to candidates and political parties since 1988. Individual candidates receive money to cover the costs of "propaganda" (e.g., the printing of election posters) and the costs of campaigning itself. Campaign grants are provided for elections for legislative and administrative assemblies and for the presidency. In legislative elections (Loi no. 88-227 and Loi no. 95-65) candidates who win at least 5 per cent of the votes in their constituency in the first round are entitled to receive a state subsidy up to a maximum of 50 per cent of the legal election spending limit (see section 4.1) through a system of flat-rate reimbursements. A similar system is applied to regional and municipal elections. Candidates for the presidency are reimbursed only one-third of their spending limit. They are, however, entitled to an advance payment of FRF 1 million (Int'l \$ 150.000) towards their campaign reimbursement (Loi no. 95-62).

The regime for political parties (or groups) is quite different. The public subsidy to political parties is given in two ways. The first part, for parties which have presented candidates for the parliamentary elections in at least 50 single-member districts, is allocated in proportion to the number of votes won in the first round. The second part is distributed in proportion to the number of MPs. Currently the total funds available are divided equally between the two types of subsidy (see table 20). State support to political parties on average accounted for more than half of the national parties' income in 1998. Smaller parties seem to depend on this source for up to 90 per cent of their headquarters' income.

TABLE 20.

STATE SUBSIDY TO FRENCH POLITICAL PARTIES					
<i>Figures are in FRF thousand.</i>					
	No. of parties	Amount of subsidy	1st part (votes)	2nd part (seats)	Parties with one MP only
1989	16	105.602 (Int \$ 20.000)	105.602		2
1990	29	260.267 (Int \$ 47.000)	260.267		14
1991	34	262.046 (Int \$ 46.000)	262.046		16
1992	40	277.065 (Int \$ 48.000)	277.065		22
1993	82	580.000 (Int \$ 98.000)	217.500	362.900	27
1994	46	525.949 (Int \$ 88.000)	264.500	261.000	4
1995	36	526.500 (Int \$ 86.000)	263.250	263.250	4
1996	36	526.500 (Int \$ 84.000)	263.250	263.250	4

Source: Yves-Marie Doublet, *L'Argent et la Politique en France*. Paris: Economica, 1997:67.

In 1995 another type of state subsidy was introduced, especially geared to new parties, which do not necessarily compete in legislative elections but may concentrate on referendums, for example. Political parties that do not receive a state subsidy on the basis of numbers of seats and votes can collect a public matching grant of FRF 2 million (Int'l \$ 330.000) (in 1995) on the condition that they have been able to solicit a total of FRF 1 million (Int'l \$ 160.000) from 10.000 identified persons, who have to include 500 elected officials in at least 30 regional units (*départements*). Doublet (1997:68–69) gives a total figure for all public subsidies to parties, parliamentary groups, and municipal and presidential (although not parliamentary) candidates for 1995. His figure, excluding salaries for MPs and their assistants, was FRF 2,355 billion (Int'l \$ 380 million). Thus in 1995 the per capita total of all public subsidies per registered voter was FRF 59 (Int'l \$ 9,6).

Germany in 1959 was one of the first established democracies to grant public funding to national parties. Nevertheless it took 35 years to work out the present political finance regime (which has been in effect since 1994). The Supreme Court has played a key role in that process (Kommers 1997:200–217).¹ Germany now has a combination of the Canadian tax credit, the US matching funds (on both these, see chapter 3) and the continental West European flat grant. In order to qualify for access to public funding a party needs an 0,5 per cent share of the national vote (in a federal or European election) or a 1,0 per cent share of the vote in at least one of the (individually held) 16 state elections.

The amount of the subsidy is limited by two general ceilings. First, no party may receive its public

entitlement unless it has collected an equal amount from (transparent) private sources, i.e., membership fees and individual or corporate donations (the technical term is “relative ceiling”). Second, the public subsidy to all parties may not exceed DEM 245 million (Int'l \$ 130 m., called the “absolute ceiling”) for 1998 and the years following, to be adjusted in due course for inflation. The distribution uses a dual criterion. First, ca. 40 per cent of the public subsidy is distributed according to the number of votes received. Each vote in the most recent state, federal and European elections entitles any eligible party to a public grant of DEM 1,00 (Int'l \$ 0,51) annually. For the first 5 million votes, eligible parties receive an additional bonus of DEM 0,30 (Int'l \$ 0,15) per vote. With the other 60 per cent of the Treasury funds set aside for the party subsidy, small donations by individuals and membership fees are matched 2:1 with public funds.

Of the total allocation, the six parties represented in the federal parliament regularly receive more than 95 per cent. The rest is distributed among between five and ten minor parties. The overall total of public subsidies for the entire election cycle 1995–1998 was DEM 965 million (Int'l \$ 530 m.), meaning ca. DEM 4,02 (Int'l \$ 2,2) per citizen per year is given to state and federal party organizations. This total does not include separate allocations to parliamentary caucuses, party youth organizations, party associations of municipal councillors or party foundations, or the net value of tax benefits for political donations, free air time on publicly owned radio and television networks or other services in kind, which are mostly provided by municipal governments (see section 3). There are no subsidies available for local party organizations or individual candidates.

TABLE 21.

STATE SUBSIDIES TO SWEDISH POLITICAL PARTIES AT THE NATIONAL LEVEL, 1999

Figures are in SEK million. In this table, \$ = Int'l \$ million.

	S	M	C	Fp	V	Mp	Kd	Total
Partistöd	41,24	22,88	6,50	6,21	9,32	4,80	8,19	99,14
Kanslistöd	6,74	6,62	5,30	5,28	5,82	5,26	5,80	40,82
Combined state support to parties	47,98 (5,0 \$)	29,50 (3,1 \$)	11,80 (1,2 \$)	11,49 (1,2 \$)	15,14 (1,6 \$)	10,06 (1,0 \$)	13,99 (1,5 \$)	139,96 (15 \$)
Partigrupsstöd	26,02	17,45	6,02	5,94	10,38	5,37	10,05	81,23
Total	74,00 (7,7 \$)	46,95 (4,9 \$)	17,82 (1,9 \$)	17,43 (1,8 \$)	25,52 (2,7 \$)	15,43 (1,6 \$)	24,04 (2,5 \$)	221,19 (23 \$)

Notes: S = Social Democratic Party (Socialdemokratiska arbetarepartiet); M = Conservative Party (Moderaterna); Fp = Liberal Party (Folkpartiet); Mp = Green Party (Miljöpartiet); C = Centre Party (Centerpartiet); V = Left Party (Vänsterpartiet); Kd = Christian Democratic Party (Kristdemokraterna). *Partistöd* is a general subsidy to the parties. *Kanslistöd* is office assistance – a subsidy for the secretariats of parties represented in parliament. *Partigrupsstöd* is state support to parliamentary groups of all parties represented in parliament.
Source: Riksdagens utredningstjänst.

In 1965 the Swedish Parliament decided to grant subsidies to the central headquarters of the political parties. The technicalities of the national subsidies have changed over time. Today they fall into three categories: a general subsidy to the party (*partistöd*), a subsidy for the secretariats of parties represented in parliament (*kanslistöd* – office assistance), and a subsidy to party groups in the parliament (*partigrupsstöd*). The latter was introduced in 1975 and is in practice part of the “national” subsidy. The amount of *partistöd* depends on the average number of seats won by a party over the two most recent parliamentary elections. In 1999, SEK 282.450 (Int'l \$ 29.000) per seat was allocated. Parties which have not won seats in parliament but have obtained at least 2,5 per cent of the votes cast in the entire country in either of the two most recent elections receive a subsidy as well. They receive the amount per seat for each one-tenth of a per cent (0,1 per cent) of the vote. Since 1969 county councils and municipalities have given funds to political parties at their respective levels, too. This was part of a local government reform and was meant to improve information on local government.

The regional and local subsidies, called the community subsidy (*kommunala partistödet*, KPS), consist of a fixed amount (*grundstöd*) and an amount depending on the numbers of seats (*mandatsstöd*). These sub-national subsidies add up to much more than the total of the three national subsidies – in 1999 they were SEK 445 million (Int'l \$ 46 m.) as compared to SEK 221 million (Int'l \$ 23 m.) for national subsidies (see table 21). Electoral defeats have very damaging effects

on the finances of sub-national party organizations (unlike national organizations): A party which has lost representation gets public money for only one year after its defeat. On the other hand, the decentralized system of public funding has contributed to the maintenance of local party activity during non-election periods.

Apart from these generic subventions to parties, special subsidies – SEK 487 million (Int'l \$ 52 m.) in fiscal year 1994/95 – were introduced for the press (meaning mostly party-affiliated newspapers, because the subsidies were legally geared towards minority papers in regional markets) in 1972, but these are not channelled through political parties.

As a consequence of these various types of public subsidies, the Swedish political parties are now very dependent on public funds, which are the dominant source of income. Data from the late 1980s indicate that the social democrats were the least dependent on public financing, mainly because they continued to receive substantial contributions from labour unions. In 1989 the Social Democratic Party at the national level depended on public money for 38,5 per cent of its total income, but the Liberal Party and the Green Party for ca. 84 per cent. The incomes of the national Conservative Party, the national Centerpartiet (Centre Party) and the national Left Party (Vänsterpartiet) were made up of 76, 68 and 66 per cent of national public subsidies, respectively (Gidlund 1991:44).

From the 1970s until 1999 parties in the Netherlands received substantial state subsidies, not directly but indirectly via affiliated foundations. State

subvention was only given at the national level and earmarked for specific purposes – research institutes, educational institutes and youth organizations. For parties to be able to receive these goal-oriented subsidies, special foundations had to be set up. Consequently, activities that had hitherto been carried out within the framework of the parties themselves were now taken care of by affiliated foundations. The only money given directly to the parties was to cover the production costs of radio and television “spots”, which were broadcast free of charge (see section 3).

Since 1999, as a result of the new law, public subsidies have been given directly to parties at the national level. The funds continue to be goal-oriented, but the list of goals has been broadened to include contacts with foreign sister parties and information to party members. Campaign spending is explicitly excluded from state subvention, for two reasons: campaigns are very difficult to monitor; and it is felt that the state should stay aloof from the direct electoral competition for power and concentrate on reinforcing the inter-election activities of political parties (by way of goal-oriented subsidies). Another new element of the law is the stipulation that political parties which have been condemned by an independent judge for racist publications or activities lose all subsidies subject to the law (including free time on radio and television) for a certain period of time (Commissie Subsidiëring Politieke Partijen 1991).

All parties represented in either of the two chambers of parliament are entitled to receive state subsidies. Parties receive a base amount plus an amount which depends on the number of parliamentary seats. The subsidy for youth organizations and research institutes is earmarked, i.e., parties can use this subsidy only for these specific purposes. (The subsidy for youth organizations also depends on the number of their members.) Parties may spend the rest of the subsidy as they please as long as they spend it for the goals mentioned in the law. The total amount of state subsidies given on the basis of the new law was ca. NLG 10 million (Int'l \$ 4,9 m.) in 1999 – ca. 25 per cent more than before. Thus the degree of dependence on state subsidies will be higher now than it was in 1995 (table 19). Individual MPs and parliamentary party groups as a collective body receive state money to hire staff. This has given parliamentary caucuses an advantage over the party organizations (Gidlund and Koole 2001).

3. Subsidies in Kind and Indirect Support

In all the countries compared in this chapter, voter registration is taken care of by the state administration and/or local authorities. In Sweden the state covers the expenses for election material (ballot papers, voting envelopes) and public information. Local governments pay for election officers, polling station facilities and transport to and from polling stations. Italy and Sweden (at increasing cost) provide a free mailing of campaign literature to each voter in national elections. Similarly, Spain provides the distribution of campaign literature at heavily reduced mail rates (e.g., at PTS 1 instead of PTS 32 or 45 per letter). The Italian state permits the use of public buildings for party political purposes. Political parties are granted a guaranteed rental contract for their premises for at least six years. Additionally, the rents on party premises may not be increased by the same amount as rents on other property. Rates for the use of public places for advertisements, billboards and pamphlets are reduced by one-third. Municipal governments in Spain, France, Germany and the Netherlands provide free space for posters. Parties are allowed to put one election poster on each billboard, next to the posters of the other parties. Sometimes meeting rooms (Italy, France, Spain), furniture, computers and cars (France) are given to parties; the German parties have to pay for these. In France and Italy some party workers or collaborators are officially listed as functionaries of public utility organizations, but work only for a party. Obviously, no reliable figures on the value of these subsidies in kind exist.

Politicians in office in France, Germany and Sweden receive money and other support in different ways. MPs enjoy free and unlimited train travel within their own country. In France they can claim the costs of air travel from the constituency to Paris for up to 40 return tickets a year. In France and Germany telephone costs and the costs of computer facilities are taken care of by the state, and offices in or near the parliament building are provided free of charge. The subsidy for personal assistants enables MPs to hire one assistant for each MP (Germany) or two MPs (Sweden). Parliamentary party groups as collective bodies receive office assistance in France, Germany and Sweden to hire staff for secretarial and research work. In Sweden a travel fund (*resebidrag*) enables MPs to travel abroad within the framework of their parliamentary duties. At the local

level party groups in municipal assemblies are also eligible for public support. While this support has been common in Germany since the 1970s (the amount of money provided depending on cities and the individual states), it is recent in France and has coincided with the process of decentralization over the past decades. Since 1993 party groups in French cities of more than 100.000 inhabitants have been entitled to a state subsidy up to a maximum of 25 per cent of the total of all remuneration to local councillors.

A major subsidy in kind for all parties is free media time during election campaigns. In Germany private broadcasters are allowed to charge a specific fee to recover their costs; public networks (which are still the major broadcasters in a mixed system of public and private radio as well as television) may recover their production costs only. In European countries air time is generally allocated to the contesting parties in proportion to their performance in the previous general election. Usually major parties receive more time than smaller ones, although by way of contrast the Dutch parties represented in the second chamber of parliament receive the same amount of time on radio and television regardless of size on an ongoing basis. During election campaigns (seven weeks before a national election) the same applies to all parties which have nominated candidates in all 19 provinces (*kieskringen*). In Sweden free time on television and radio is given to parties during election campaigns only. Paid political advertising by parties is not allowed except on local television and radio stations.

Tax benefits for political donations are not easy to estimate. In France up to 40 per cent of donations and membership fees given to parties (or candidates) by individuals is deductible from taxable income. In the Netherlands donations from both individuals and corporations are tax-deductible. Individuals may deduct donations in excess of NLG 120 (Int'l \$ 53) and 1 per cent of the individual's gross annual income up to a maximum of 10 per cent of gross annual income. In fiscal terms membership fees are considered to be gifts. Corporations can deduct donations of more than NLG 500 (Int'l \$ 220) per year up to a maximum of 6 per cent of annual profits (Commissie Subsidiering Politieke Partijen 1991:131–133).

In Germany there have been tax incentives for small donations (and party membership dues) since 1967. Following a Supreme Court ruling, no tax benefits have been available for corporate donations since 1992.

Today the tax benefit is limited to individual contributions (including membership fees) up to DEM 6.000 (Int'l \$ 3.000) per donor per annum. Individual donors receive a 50 per cent tax credit of up to DEM 1.500 (Int'l \$ 750) for a political contribution of up to DEM 3.000 (Int'l \$ 1.500) per year per taxpayer. Another DEM 3.000 per year per taxpayer can be deducted from taxable income for any donation in excess of the first DEM 3.000. If an individual contributes DEM 4.800 (Int'l \$ 2.400) per calendar year as a membership fee, as a donation or as an assessment on his or her political income (*Sonderbeitrag, Parteisteuer*) or as any combination of these, the amount of the tax benefit depends primarily on the marital status of the contributor/taxpayer. On a joint return a contribution of DEM 4.800 simply earns a couple a tax credit of DEM 2.400 (Int'l \$ 1.200), the amount being considered as an advance payment on the final income tax due. For a taxpayer taxed as a single person a party contribution of DEM 4.800 will earn the donor DEM 1.500 income tax credit for the first DEM 3.000 of the contribution (but only if made to a party, not to a candidate, a caucus or any ancillary group). The remaining DEM 1.800 (Int'l \$ 900) is available for a tax deduction, i.e., this amount will be deducted from taxable income as established annually by the Internal Revenue Service (Finanzamt) and the income tax saved by the surplus contribution will then depend on the personal tax rate applicable.

4. Public Monitoring of Political Finance

Monitoring and control of political finance have been introduced in Germany, Italy and Spain. At first glance the Spanish political finance regime seems to cover all possible aspects of public monitoring of political money. Italy offers a variety of elements for a strict although inconsequential system of public monitoring. In Germany public monitoring of party financing has developed over a long period of time. As early as 1949 the constitution required parties to report to the public the sources of their income. However, it took about two decades to hammer out the details in the Parties Law of 1967, and the present rules were not established until 1983.

In France, the Netherlands and Sweden monitoring of party financing is limited because privacy of donors and parties is emphasized. Since 1988 political parties in France which receive a public subsidy or private

money subject to an income tax deduction have been required to keep financial records. Later various regulations were adopted and a great amount of jurisprudence has followed but, because of the complexity and the sometimes contradictory nature of the legal requirements, the poor level of supervision and the great constitutional freedom given to political parties, transparency of political funds is still lacking. In Sweden legislation concerning political parties is minimal. There are no rules for donations, campaign expenditure or media access, and the rules on public subsidies to political parties contain no specific provision concerning any quid pro quo from the parties. Dutch legislators are still rather inexperienced with regulation on the transparency of political finance.

4.1. Bans and Limits

Bans and limits exist for foundations and donors, as well as limits on expenditure for candidates and parties.

Spain's party and campaign finance regulation includes several restrictions on income and expenditure. The most general rule is a complete ban on donations by public enterprises, government contractors and foreign institutions (except the European Parliament). In order to reduce pressure resulting from sources of funding which are deemed unacceptable – i.e., corporate donations and cash in exchange for favours – only small amounts of private money can find their way legally into party coffers. Since 1985 there has been a limit for the annual total of political donations an individual or group may make. In 1987 this amount was increased to ESP 10 million (Int'l \$ 71.870). For campaign donations there is a further restriction: a maximum of ESP 1 million (Int'l \$ 7.190) per donor applies to all kinds of donors. For any recipient party the total amount of anonymous donations may not exceed 5 per cent of the total public subsidy allocated to all parties in that specific year, i.e., ESP 375 million (Int'l \$ 5 m.) in 1987 or ESP 501 million (Int'l \$ 4 m.) in 1998 (Sanchez 1999:38–39). The spending limit for political parties' campaign expenses depends on the number of inhabitants in those constituencies where the party presents candidates. The amount per inhabitant (ESP 44 in 1996) is linked to the consumer price index (CPI).

Generally there are no limits in Italy on donations, whether individual or corporate. Attention, however, must be drawn to business contributions. Privately-run companies and businesses are allowed to financially

support the political party of their choice. The law requires, however, that any donation to a party must be approved by the board of directors and appear in the company's annual report. Legislation also includes provisions which forbid donations by certain companies and semi-public bodies. An act passed in 1975 (no. 195/75) bans any company with a public shareholding of 20 per cent or more of corporate capital from donating to political parties. The law in Italy differentiates between ordinary and extraordinary activities (i.e., election campaigns), and limits to contributions for campaign purposes have been introduced. Donations to a particular candidate (but not to a party) to cover campaign costs may not exceed ITL 23 million (Int'l \$ 13.000). Campaign expenses per candidate may not exceed a total of ITL 100 million (Int'l \$ 57.500). There are additional limits in operation for parties which present candidates in all constituencies. This ceiling is ca. ITL 11 billion (Int'l \$ 6,3 million). There are, however, apparent problems with enforcing this law as it appears rather difficult to draw a line between ordinary expenditure and the extraordinary costs of election campaigns (Bianco and Gardini 1999:28).

Since 1995 in France candidates and parties have no longer been allowed to receive funds from private corporations or public-sector companies. Foreign donations are likewise banned. Donations from any individual (physical person) may not exceed FRF 50.000 (Int'l \$ 7.500) per year. Donations of more than FRF 1.000 (Int'l \$ 150) must be given by cheque. Expenditure limits exist for both candidates and parties. At presidential elections a party and its candidate may spend up to FRF 90 million (Int'l \$ 13 m.) for the first ballot and FRF 120 million (Int'l \$ 17,9 m.) in the second round. The expenditure limit for parliamentary elections, for both parties and candidates, is FRF 250.000 (Int'l \$ 37.000) plus FRF 1 (Int'l \$ 0,15) for each inhabitant. For European elections it is FRF 56 million (Int'l \$ 8,3 m.) per list, and for local elections it varies from FRF 1,5 (Int'l \$ 0,22) to FRF 11 (Int'l \$ 1,6) for each inhabitant, depending on the type of election and the size of the population (all figures are as of 1998/99). One way to get around spending limits is by setting up support committees for candidates (*comités de soutien*).

In Germany, the Netherlands and Sweden there is no legal limit for political contributions by individual or corporate donors. The same applies to party

expenditure: there is no limit on the total amount or on specific items for campaign expenses or routine spending. Nevertheless there are practical restrictions. For Germany the most important of these are (a) a ban on tax benefits for corporate donors imposed by the Supreme Court, and (b) public disclosure of all large donations by the recipient party.

Neither of these applies in the Netherlands (which offers tax benefits for donations to political parties by individuals and corporations) or in Sweden (which does not provide such benefits). Both countries, however, have other practical restrictions on corporate donations: All major parties have publicly declared that they will not accept such contributions (and so far seem to live up to this voluntary obligation).

4.2. Disclosure of Donors' Identity

With Sweden being the only exception (parties are not obliged to provide any public information about their donors), statutory obligations to disclose donors' identities have been implemented in all the countries compared in this chapter, obviously with different effects. In Spain disclosure is only vaguely regulated (by article 4.3 of the LOFPP) and not seriously enforced. Thus very little is known about private sources of party financing between 1977 and 1985 (del Castillo 1994:98–99). Most of the information which came up during the early 1990s was revealed through scandals.

In contrast, in Italy all contributions of more than ITL 5 million (Int'l \$ 2.900) must be disclosed. Not only the party benefiting but also the donor has to declare the amount contributed. The distinction between ordinary and extraordinary spending brings about two sorts of disclosure. Although the law demands documentation of a corporate contribution in the donating company's annual report and the receiving party's balance sheet, political practice does not usually obey such disclosure rules. This fact indicates the amazing gap between statutory requirements and political reality (Bianco and Gardini 1999:28).

This may have been the reason why in France corporate donations of any kind were disallowed in 1995 (see section 4.1 above). However, it is important to note that all donations to candidates and parties must be given via a financial agent, a *mandataire*, which is either an individual or a special finance association (*association de financement*). Both have to be approved by the Commission Nationale des Comptes de

Campagne et des Financements Politiques (CCFP; see section 4.4) in order for donations to be tax-deductible. Each candidate and each party can only have one *mandataire* (Doublet 1997).

In Germany disclosure is restricted to big donors – their names and addresses, and the total of their donations, starting at DEM 20.000 (Int'l \$ 10.000) per donor per year. This feature has remained basically unchanged since 1983. Implementation of the disclosure provision is controlled by the permanent staff of each federal party organization's finance department and its head, the treasurer, in close cooperation with a certified accountancy firm commissioned and paid by each federal party individually. The rules are by and large observed, although parties try to split corporate donations between subsidiaries of big companies (which is perfectly legal, but the subject of scandal-mongering by the media). A serious offence occurred when former Chancellor Helmut Kohl kept undisclosed some clandestine funds of unnamed (private or corporate) origin, amounting to ca. DEM 12 million, during the last decade of his time in office, that is, ca. DEM 1 million per year (Int'l \$ rates n/a). (On the legal and political consequences of these scandals, see sections 4.3 and 4.4 below.)

Initially there was no disclosure in the Netherlands. In the mid-1990s, however, most political parties, following a suggestion of the Ministry of Home Affairs, introduced into their by-laws a stipulation that all donations received from private organizations in excess of NLG 10.000 (Int'l \$ 4.600) had to be publicly disclosed by the recipient party. The new Law on State Subvention to Political Parties (1999) includes a stipulation with the same text (article 18); all these donations have to be made public in the annual financial report of the party. Donations by the same organization within a time-span of one year are deemed to be one donation. The date of the gift, the amount and the name of the donor are to be made public unless the donor objects to the publication of his or her name, in which case a description of the category of donor has to be given (e.g., business, union or non-profit organization, although the law does not provide any categories). This rather ambiguous stipulation says nothing about individual donations or transfers to organizations other than political parties (e.g., affiliated foundations).

4.3. Reporting of Political Funds

Reporting procedures in Spain, France, Italy and Germany show some similarities. In Spain and France a special agency is responsible – in France the CCFP, in Spain the Tribunal de Cuentas, the national agency for the monitoring of financial management in the public sector. French political parties have to deliver annual reports, while candidates must report within a specific time-span after each election. Presidential elections, however, are subject to a different regime: Candidates have to report their campaign spending to the Conseil Constitutionnel, which must publish reports in the *Journal Officiel* two months after the election. Since 1985/87 each party in Spain has reported annually on its campaign expenses and related fund-raising after each election, as well as on its current income and expenditure, to the Tribunal de Cuentas. In Germany and Italy the treasurers of the national parties submit their annual reports to the speaker of the parliament.

In Italy all parties are required by law to report annually on their financial transactions. A balance sheet for the national party headquarters has to be handed in to the speaker's office of the Camera dei Deputati (the lower house of the parliament) by 30 March every year. The speaker is assisted by a committee of chartered accountants which reviews the technicalities. After this procedure the parties' financial accounts are published in the *Gazzetta Ufficiale*, the official organ for the publishing of laws and decrees. However, in contrast to the German case, in Italy election campaign donations, incomes and expenditure have to be declared separately to the Corte dei Conti (the state auditor) following any election, while candidates have to declare donations received to the Collegio Regionale di Garanzia Elettorale, the regional administrative agency in charge of elections. Individual donors are not mentioned, and only the total sums of money received are indicated by categories such as membership fees, donations and public subsidies.

Although the Italian reports have to mention all party property, such as real estate, shares and income from economic activity, they are still very lacking in detail. It still seems to be quite possible to conceal the flow of money. (Furthermore, the law dealing with reporting and publication of party financing tends to assume that the party press is a sub-organization of the party, because the balance sheet design demands documentation of all incomes from publishing and mass information activities. Taking this into account,

the conclusion is obvious that the parties are entitled to spend part of the state subsidies to cover the deficit of the party press.)

Just as the Italian reports lack transparency, the French reports of the parties are also incomplete. Local activities of parties (as in Spain and Italy) are not included, links between parties and specific associations or foundations remain unclear, and the legal status of parties is rather vague. Most candidates tend to be backed by support committees, but money raised and spent by them does not show up in the campaign account of any candidate.

In Germany a financial report which includes details on income and expenditure, and information on debts and assets at all levels of each party organization has to be filed with the speaker of the federal parliament. All reports and the lists of donors are published in a parliamentary paper (*Bundestags-Drucksache*). Reporting has been required by law since 1967 and safeguarded by a detailed clause in the constitution (article 21) since 1984. There are some elements of symbolic politics in the current reporting rules, but they have resolved all major problems except one: assessments of legislators and municipal councillors do not show up as a separate category in the reporting schedule (this is being tackled in an amendment to the law currently before the parliament). Obviously the "slush funds" of interested money mentioned above did not show up in the financial reports for the years 1984–1998.

In order to distinguish the political damage caused by the scandal from the regulatory problem as far as reporting is concerned, some observations are in place. The slush funds revealed were (a) non-reported donations to a former CDU party leader and federal chancellor – ca. DEM 12 million (Int'l \$ 6 m.); and (b) unreported assets held clandestinely in foreign banks by the then secretary general of the CDU state party in Hesse (who was later to be the federal minister of home affairs) and his state treasurer – some DEM 20 million (Int'l \$ 10 m.). Both major scandals involve transactions by former CDU officials who decided to keep some clandestine funds "on the side" when all parties implemented the new, stricter rules of political finance legislation. It was not so much the amount of money involved as the violation of statute law by cabinet members which caused the scandal.

Legislators' lack of experience with regulation concerning transparency of political funds in the

Netherlands is evident from the fact that the Law on State Subvention to Political Parties (1999) does not require a detailed common format to be used for the financial reports of political parties. Audited balance sheets for most parties and their affiliated organizations, however, have been available for scholarly research during the past decades, on the basis of which it is safe to conclude that contributions from “big donors” (business circles or labour unions) barely exist.

Although no official monitoring for party funds exists and no procedure for enforcement is in place in Sweden, in 1980 the political parties agreed among themselves to make available for inspection annually, on a voluntary basis, the income and expenditure of their national headquarters. At regular intervals, and stimulated recently by an increasing number of political scandals and cases of unethical behaviour among politicians, demands have been made in public debate for the parties’ autonomy to be reduced. So far the parties have successfully defended their privileges. Even in 1999, a royal commission evaluating the elections of the previous year concluded that voluntary agreements among parties were sufficient. However, in 2000, after the Kohl affair in Germany had aroused concern in Sweden, another royal commission argued for some regulation on making public the funding for candidates and parties (Gidlund and Koole 2001).

4.4. Enforcement

Since the transition to democracy, the Spanish parties have always had to present financial reports for their campaigns to the election administration (Juntas Electorales), which can refer any breach of the law to the public prosecutor but cannot impose any sanction. Not surprisingly, information on party financing is scarce and, particularly during the first years after the transition to democracy, there was practically no legal monitoring of party financing. Although the prerogatives of the Tribunal de Cuentas have been increased in recent years, reliable data is still lacking. This is largely because the state auditors have limited authority to demand information beyond that offered by the parties, although in 1991/92 an investigation was started into some companies allegedly involved in improper dealings to raise funds for the governing party. The state auditors, whose role is basically limited to investigating the irregularities in the accounts

provided by the parties themselves, have been reluctant to fulfil their legal obligation to publish the annual reports. By 1997 only annual reports for 1987–1992 and the campaign reports for 1986–1996 had been published. A number of cases of illicit party financing, such as the Filesa affair or the Flick case, had been investigated.

The Juntas Electorales can report breaches of the law to the Public Prosecutor, but cannot impose any sanctions. The Tribunal de Cuentas can only recommend to parliament that the public subsidies for a party which does not comply with the legal rules be reduced. Since the authority to impose sanctions ultimately rests with the Spanish Parliament, which means, in practical terms, with the parties themselves, it is perhaps not surprising that, despite the many irregularities in the party accounts and sometimes apparent infringements of the law, effective sanctions have hardly been imposed. Moreover, parties may actually prefer to pay a relatively small fine rather than comply with the legal provisions.

In Italy numerous rules have been provided for enforcement. In the event of irregularities allocations from tax check-off funds to a party can be suspended until regularity has been restored (Law no. 2/97). If individual donations to political parties in excess of ITL 5 million (Int’l \$ 2.900) are not declared (by the donor or the party) the sanction for breach of the rule is a fine (Law no. 659/81). There is a fairly harsh enforcement regime to back up the law of 1975 (see section 4.1) which prevents public bodies and companies with public share-holdings of over 20 per cent from donating. If this law is breached those responsible can expect a prison sentence of up to four years. Finally, there is a regime which deals with offences relating to illegal election campaign donations. The institutions that administer elections have the power to impose fines for any violation of the rules.

The enforcement of these rules has been assigned to various agencies. In the event of irregularities the speaker of the Camera dei Deputati may order the suspension of subsidy allocations. Offences relating to illegal election campaign donations are treated in a different way. For parliamentary candidates the Collegio regionale di garanzia elettorale and for parties the Corte dei Conti enjoy the administrative power to impose a fine for any violation of the rules.

In France² a special agency, the CCFP, was set up in 1990 to control campaign expenditure and other issues

concerning political finance. Its nine members are appointed for a period of five years by the government as nominated by the vice-president of the Conseil d'État, the president of the Cour de Cassation, and the first president of the Cour des Comptes (each proposes three candidates). The CCFP employs between 30 and 40 staff. It approves, rejects or changes the reports filed with it by the parties and candidates. It can reject campaign accounts for various reasons – if a deficit is unaccounted for, if there are no receipts, or if an account has not been opened by an agent in the proper way.

Nevertheless the powers of the CCFP are very limited. In the event of a suspected violation of the law it can refer the matter to the Attorney General (Procureur de la République), but even then administrative and penal sanctions are quite modest. If there are irregularities in candidates' campaign reports (for example, the spending limit has been exceeded, or donations have been received without the intermediacy of the *mandataire*), the CCFP may refer the case to an electoral judge (juge de l'élection) – a special administrative judge, who can apply electoral sanctions (e.g., declare a candidate non-eligible) or financial and penal sanctions as stipulated in the Electoral Law. A candidate can be disqualified, but only when the excess spending was more than 5 per cent of permitted electoral expenses. However, since 1996 the legislation has allowed exemption from disqualification in the case of good faith, for example, where the application of the law is unclear or would lead to inflexibility. The CCFP can institute criminal proceedings and increasingly does so (it did so in 50 instances in 1998), trying to claw back the power it lost in the electoral area as a result of the "good faith" legislation.

The electoral judge acts not only on the initiative of the CCFP, but also on request of any voter. The Conseil d'État acts as the court of appeal. The penalties have no deterrent effect. Offences involving political corruption are prosecuted under the criminal code rather than under legislation on the funding of political parties. However, parties cannot be prosecuted under the criminal code.

The Conseil Constitutionnel, which is charged with monitoring the funding of presidential elections, has no power to apply an electoral sanction in the event of irregularities or a breach of the spending limits, and has only limited powers to apply other sanctions. Moreover, presidential candidates tend to be backed by

comités de soutien set up for the occasion. These committees were originally introduced by law in 1995 in order to give candidates who are not backed by their own political party, because it is supporting another candidate, the possibility to raise additional money, but they are now used by most candidates, generally on a local basis. The support committees collect money for candidates' campaigns at the local level, but this money is not included in the national campaign accounts. Consequently these funds are not taken into consideration when assessing whether or not a candidate has exceeded the spending limit.

Nevertheless the rules on contribution and spending limits seem to be quite effective in constituencies which are of a reasonable size. The effectiveness of the rules on contribution and spending limits is much more doubtful in a large area like the whole nation. Especially in presidential elections the means of controlling the origin of funds are very limited (Doublet 2001:6).

Enforcement of the German regulations relating to political parties is the task of four separate agencies, none of which has any similarity with the US Federal Election Commission or the institutions of other members of the Council on Governmental Ethics Laws (COGEL).

The procedure for registration of political parties is as loose as the requirements for registration. Registration is done by the president of the federal statistical office, who is the head of the German election administration (*Bundeswahlleiter*). Registration requirements are written by-laws, a party programme and a formal leadership. Some 60 parties are currently registered. To a great degree this list of registered parties is identical to the list of parties which are authorized to issue receipts for political contributions eligible for tax credits and tax deductions. The compilation of this list is within the jurisdiction of the Internal Revenue Service (*Bundesamt der Finanzen*) and may be challenged in court.

All parties (as required by law) submit their annual report and their donors' list to the speaker of the federal parliament (*Bundestagspräsident*). The administrative staff of the speaker of the German Parliament have to check (although not to audit) the annual reports, which are submitted by 23 – three parties regularly and 17 others occasionally, publish them (most recently for 2000 in *Bundestags-Drucksache* no. 14/8022 of 2002) and comment on them in a parliamentary paper (most

recently, for 1999, in Bundestags-Drucksache no. 14/7979 of 2002). It also calculates and pays the (direct) public subsidy to all eligible parties. In recent years all six parties represented in the federal parliament and a dozen others (a few of them represented in one of the state legislatures or the European Parliament, but not federally) have received a public grant. All these parties have submitted their annual reports regularly and on time, as submission of such reports is a legal requirement for subsidization.

In late 1999 a major scandal revealed various dubious transactions and two clear-cut violations of the law on party financing by the major conservative party (the Christian Democratic Union, CDU). First, one of the party's 16 state branches, the state party of Hesse, had not reported considerable assets held in foreign bank accounts. Second, over many years the former leader of the CDU had used a "slush fund".

On the first infringement, the speaker of the federal parliament (in strict application of the rules laid down in the Parties Law) refused to grant the full amount of the public subsidy to the federal party and demanded that the CDU return the cash advance already received. The party decided to question this decision in the courts and has so far been successful in a lower administrative court. On the second infringement a penalty was imposed for refusal to disclose the identity of various donors who had contributed to former Chancellor Kohl's secret fund. Because these donations are deemed to be anonymous (i.e., illegal) the CDU had to face (and has accepted) a total penalty of ca. DEM 10 million (Int'l \$ 5,4 m.). Mr. Kohl made up for the financial, but not the political, damage caused by soliciting this amount in additional, identified and perfectly legal donations. The speaker of the federal parliament restricted his penalty to those illegal acts which had occurred during the previous four years, the period for which documents have to be preserved in the party files.

A commission of experts on party financing (*Parteienfinanzierungs-Kommission*), appointed by the federal president, who is the formal head of state, is in charge of establishing and calculating a price index for party expenses. Since 1992 this index has been the constitutional requirement for any inflationary adjustment of the total amount of direct public subsidies to political parties (technically called the "absolute ceiling", as mentioned above). In addition the commission has to evaluate any proposed amendment

to the present legislation, but it has no administrative duties or oversight jurisdiction of any kind. It has, however, prepared two reports concerning a review of the current legislation (Bundestags-Drucksache no. 14/637 in 1999 and no. 14/6710 in 2001).

In order to check the reliability of financial reports in the Netherlands the Law on State Subvention to Political Parties (1999) requires parties to have their reports audited by a registered accountant. The party is obliged to make its accountant cooperate with the auditor of the Ministry of Home Affairs if the ministry deems it necessary to check the work of the accountant. No specific sanction is mentioned in the event of parties failing to abide by the law, e.g., failing to disclose donations or to cooperate. It would, however, be in line with the law to have the subsidy postponed, reduced or even withheld. As the law stipulating all this is very new, no jurisprudence exists.

Following a very heated debate in 1965, when the parties were afraid of state intervention in their internal affairs, no official monitoring exists for party funding in Sweden. All transparency provided by Swedish parties is voluntary and no legal enforcement of their agreements is possible. To date legislation concerning public subsidies to political parties does not include any specific transparency or its enforcement. The use of subsidies is entirely up to the party; no statutory rule exists as to the purposes the money is used for. There is not even a check as to whether the purpose is political in character or not. This policy of aloofness was first expressed by the Committee of Experts on Party Financing (a royal commission) in 1951 and is still upheld. Although political parties to a great extent depend on state aid for their income, they enjoy great organizational freedom.

5. Conclusion: Lessons to be Learned from Western Europe

Legislators clearly prefer public subsidies to private funding, at least to close the gap between increasing costs and declining membership fees and to prevent parties from becoming instruments of wealthy groups or individuals. Over time this policy has led to very generous systems of state subvention for political parties – in Germany since 1959, Sweden since 1965, Italy since 1974, Spain since 1978 and France since 1988. Until 1999 Dutch political finance was characterized by its modest scale and by the absence of

state subsidies for campaign expenses and for party funds in general. However, as a result of the drop in party membership, the absence of plutocratic financing and the modest level of the state subvention, their limited resources have put the Dutch parties under pressure to follow the path of public financing.

European parties are to a very great extent financially dependent on state subsidies. The impact of public funding in established democracies is controversial. Has it contributed to a breakdown of mass membership? Party membership in Sweden remained fairly stable for a long period after large-scale state subvention was introduced. This could mean that state subvention does not necessarily have a negative impact on the number of party members, even if the latter have become less important for the income of parties.

One of the major threats with respect to the introduction of large-scale state aid is that it may lead to a “petrification” of the party system: all subsidies foster the status quo. The development of party systems, however, indicates that there is no causal relationship (Pierre, Svåsand and Widfeldt 2000). The European party systems were considered to be “frozen” long before public subsidies to parties were introduced. In the 1990s the volatility of the electorate increased, resulting in drastic shifts of votes between parties (e.g., in Sweden and Italy), notwithstanding the enormous amounts of state subvention to the major parties. In all countries new parties arose, especially the Greens, being almost the creatures of public funding.

In order to reduce the role of big money in political finance, corporate donations are prohibited (in France), limited (in Spain) or disclosed (in Germany, Italy and the Netherlands). In Sweden there are voluntary decisions of the parties not to accept such contributions. The cases of Spain and Italy show that party funding from private sources can operate outside legal mechanisms and thus cause corruption.

A framework of complete freedom plus effective disclosure would be better than the current system of bans and limits. Generous public subsidies do not stop corruption, especially if enforcement of bans, limits and transparency rules is lax. If, apart from clear fraud, all donations to parties are allowed, scandals are less likely to occur. It may also be important that other channels are open for private interests to influence political decision making. The near-absence of a clientilistic tradition in the Netherlands may have contributed to an atmosphere in which corruption of

and by political parties is rare. Today, big donors hardly exist in the Netherlands or in Germany.

Especially in Italy and Spain, parties are unwilling to accept effective disclosure and reporting as the political price to be paid for generous public subsidies. This has led to undisclosed contributions and fake balance sheets. After a few years any serious observer could already see that in Italy reported party expenses regularly exceeded reported party income. The conclusion was simple: Either parties were living on funds tucked away in earlier decades or the published reports were unreliable. In France a succession of various laws (in 1988, 1990, 1993 and 1995), most of them hastily drafted, led to legal contradictions and to loopholes that were exploited by politicians and parties alike; the German political finance regime of 1994, on the other hand, has an integrated systems approach towards political money, based on public subsidies and reporting rules. This approach seems to be a successful attempt to avoid both overregulation and empty symbolism.

Credible reporting cannot be limited to the income and expenses of party headquarters. In order to provide for an easy cross-check, debts and assets have to be included and, as parties usually have regional and local branches, the income and expenses of these sub-organizations have to be included in the reporting procedure.

European party organizations, existing traditionally or built up with public money, are the major cause of increasing expenditure. The decentralized character of public funding in Sweden has proved instrumental in keeping local party organizations alive between elections. However, the parties always need more money than they get. The Dutch parties are the exception to the rule. Because public funding has been modest, no party bureaucracies have been built up and consequently the need for large amounts of money is not as urgent as elsewhere. Taxpayers, who are sceptical about public subsidies to parties, may not be willing to agree to an increase.

The case of Italy demonstrates a deplorable trend. As inflation nibbled away the purchasing power of subsidies, the parties should have taken measures to ensure substantial income, but the 1978 referendum sent the parties a clear message: Don't be sure that public disenchantment will not stop public subsidies altogether at any time. This created a “glass ceiling” above which public subsidies could not be increased to

adequate levels. At first the parties confined themselves to finding new pretexts for subsidization. Finally the governing parties relied increasingly on a clandestine avenue to additional funds: political graft of the most traditional form (like that in the nineteenth-century USA and mid-twentieth-century Quebec, to name just two examples) provided *tangenti*. The sheer scale of the ensuing corruption triggered recurring scandals – scandals which led to an upheaval of the political system.

Dependence on big donors could be expected in countries where parties are not deeply rooted in society. The path taken by Spain since 1977, to develop a newly consolidated democracy with a high level of public funding of political parties, was therefore acceptable. Emerging democracies have an enormous task to encourage **linkage between parties and society**, and this does not seem to get started without public and/or foreign money. However, the Spanish rules for party financing neither encourage the legal use of private contributions from individuals and corporations nor provide a framework for effective disclosure. After the transition phase these rules did not include stipulations concerning (non-foreign) private funds, effective incentives and disclosure. Unfortunately Spain has neglected to provide for this necessary shift in funding sources after democracy was firmly established.

In addition to this, the Spanish experience indicates that if a country copies the political finance regime applied in another country (Germany as of the late 1970s in the case of Spain) it must also copy those parts of the foreign rules which will be a nuisance to the parties. If the country simply aims to address two obvious problems – the lack of funds for party activity and the corrupting potential of corporate donations – it will miss the complexity of the issue which is being regulated. It was a mistake to imitate or copy the German largesse in public funding without the in-built requirements of mixed funding (the amount of direct public subsidies must not exceed the private funds already available to a party) and detailed transparency rules. The Spanish parties' obvious neglect of the opportunity to tap ordinary citizens (party members or small donors) as a source of private funding ended up proving that public funds will not abolish corruption.

The German political finance regime (as amended in 1994) is a mixed system, based on an evaluation of the risks and benefits inherent in a system of private

financing of political parties as well as those related to a system of public funding. No party will receive public funding without abiding by the law and its restrictions. The rules setting out the political finance regime incorporate various incentives for political parties to make serious efforts to raise funds from private donors, especially from the ordinary individual citizen:

- No party will receive public funding in excess of the amount of money raised from party members and private donors.
- About 60 per cent of the total amount of public funding is allocated as a grant matching party income solicited from small donations, membership dues and assessments of politicians.
- Generous tax benefits (albeit without selective incentives for small donors) are available for those individuals who have contributed to party coffers (but not for corporations).

A system of public funding which does not include **incentives for party-building** is not desirable for emerging democracies where parties are not yet rooted in society. **Overgenerous** public funding, however, will produce political parties which are overextended and under-resourced. The search for more money for “useful” activities (e.g., an electoral “arms race”) will never end. Corporate funds which have been banned are likely to find alternative ways into party coffers, as the Spanish case demonstrates. Therefore precautions to increase the private share of party financing over time by providing incentives for parties to raise private funds and for individuals to contribute to party coffers must be taken meticulously.

German federal law demands comprehensive **reporting**, by all sub-units of each party organization (which is not to be confused with the still inefficient disclosure of individual and corporate donors' identities). Complete transparency of all party organization funds (although not of the penumbra of ancillary organizations) with annual reports on income, expenditure, debts and assets at all levels of party activity was introduced in 1984. It has not, however, earned the parties greater confidence, either among the media or with the voting public, as became perfectly clear during the 1999/2000 scandal.

For Germany, it has to be noted that the most highly developed reporting regime in any established democracy goes along with ineffective disclosure and

enforcement. Part of the enforcement problem is an insufficient demarcation between party work, candidate campaigns, parliamentary party groups and party institutes. Different rules apply and leave loopholes (of unknown extent) as well as loose enforcement by those agencies which are only marginally involved. The major disclosure problems result from having the same deadlines for reporting and disclosure (which delays disclosure of donors) and identical cut-off thresholds for both national and local donors. A high degree of transparency and strong enforcement (for example, by not making public subsidies available for political parties which do not abide by the law) are minimum requirements for a healthy system of political finance.

Another weak point of the German rules is that in actual practice base amounts and the matching ratio for public subsidies are set rather high. Because the total entitlement under the law in each and every year exceeds the legal maximum amount for the subsidy, a built-in “airbag” or safety cushion keeps major risks at bay which might result from a change in voter participation or a decline in party membership. The combined financial claim of all parties under the law is ca. DEM 330 million (Int'l \$ 165 m.) annually, whereas the legal maximum is currently DEM 245 million (Int'l \$ 122,5 m.). Thus, a matching grant has been turned into a generous routine subsidy which is in fact distributed without practical dependence on voter turnout and fund-raising success.

Because in many European countries the amount of the state subsidy is at least partly based on the number of seats in parliament, political parties are required to concentrate on winning elections rather than on gaining or keeping financial support from their grass roots. Another consequence may be the loosening of ties between local and national party bodies. With the decreasing importance of a common ideology, and enormous amounts of public money given to national party headquarters, sub-national party bodies may feel themselves less compelled than ever to support the national party. On the other hand, the availability of substantial public funds for political parties at the local level may have a stimulating effect on the number of “local parties”, i.e., parties which contest elections only at the local level, frequently on an ad hoc basis.

Endnotes

¹ An electronic file of all court rulings (in German) is available at: www.uni-wuerzburg.de/glaw.

² For this section on France the author has drawn extensively on a background paper, “Funding in France”, prepared for International IDEA by Yves-Marie Doublet in 2001. His input is gratefully acknowledged.

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