

Have We Seen Better Times or How Rich Are Czech Political Parties?

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Abstract: *Funding of political parties is an extremely significant element in democracy. Parties are in need of money and it is important where it comes from. Transparency should lead to easier control and should relieve political parties of fixed private resources and of reciprocal commitments to the donor. This study analyses a specific aspect of political party funding in the Czech Republic. It can be argued that the issue of transparency and general establishment of rules of funding have not been fully resolved, which is to a great extent valid for all of Central and Eastern Europe.*

Keywords: *Democracy, Funding of political parties, Czech Republic*

Introduction

This study aims at introducing and interpreting the basic parameters of funding of major political parties in the Czech Republic, free of identified distorting influences. The majority of studies analysing funding of political parties have limited comparability because they present data in nominal values regardless of currency values in investigated countries and regardless of the varying economic strength of these countries. The inaccuracy is further intensified by covering long periods of time, during which nominal values change in relation to the inflation rate, monetary fluctuations, average wage, etc.

This study covers the period from 1995 to 2014. The interval begins in 1995 when political parties were first obliged to publish annual financial reports with basic information about their economic activities. It ends in 2014 because we do not have more up to date data concerning party funding (political parties in the Czech Republic publish annual reports on 1st of April of the following year).

Although the Czech political party system was relatively stable over the given period (Deegan Krause, Haughton 2010; Bakke, Sitter 2013; Charvát 2014; O'Dwyer 2014) and manifested elements of moderate pluralism, it was not constant. Representatives of the liberal party changed several times, representatives of the populist right lost parliamentary representation, and the 2010 election marked the emergence of business-type political parties in the lower chamber of Parliament. The last mentioned parties were in many ways (weaker ideological background, internal organization and types of funding) different from the traditional concept of a political party. This study focuses on four bodies, which have been relevant at the parliamentary level over the entire period (with a three year break for one of them). Table 1 summarizes their electoral results over the examined period. These were two parties, which had dominated Czech politics in this period, or rather up until 2013 completely dominated — the Social Democratic party, ČSSD, and the conservative-liberal party, ODS, — and two electorally less dominant parties: the Communist party, KSČM, and the Christian Democratic Party, KDU-ČSL (this party failed in the 2010 election and spent three years outside the Chamber of Deputies; it had traditionally played the role of a “hinge party” and participated in most governments). They were also the parties which had the highest number of members in the examined period even though their number did not correspond with their electoral strength. KSČM and KDU-ČSL had the strongest membership base in the Czech Republic even though they had experienced a radical fall in their membership since 1995 — KSČM by two thirds, KDU-ČSL by one half (see Graph 1).

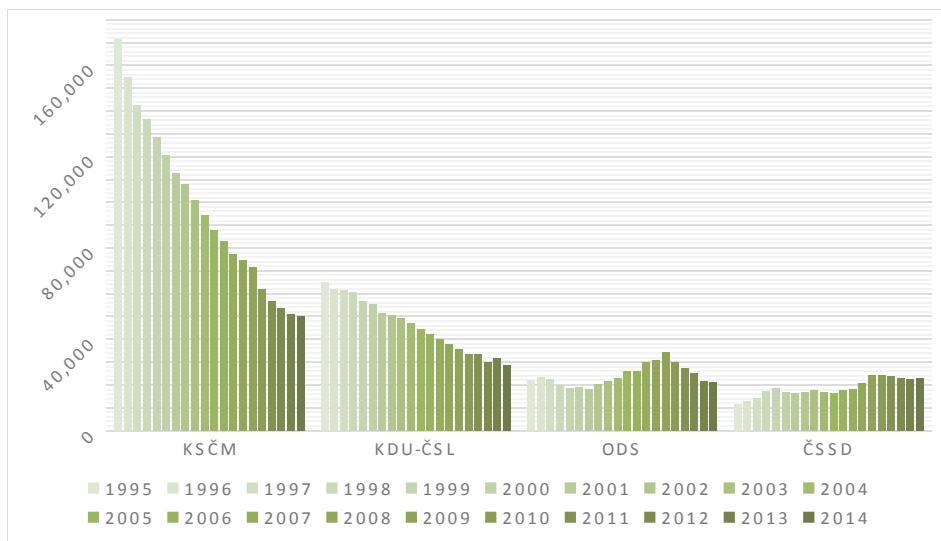
Table 1: Electoral results

	ODS	ČSSD	KDU-ČSL	KSČM
1992	29,7 ^{*)}	6,5	6,3	14,1 ^{*)}
1996	29,6	26,4	8,1	10,3
1998	27,7	32,3	9	11
2002	24,5	30,2	14,3 ^{*)}	18,5
2006	35,4	32,3	7,2	12,8
2010	20,2	22,1	4,4	11,3
2013	7,7	20,5	6,8	14,9

^{*)} The party entered the election in a coalition with another body (other bodies)

Source: www.volby.cz

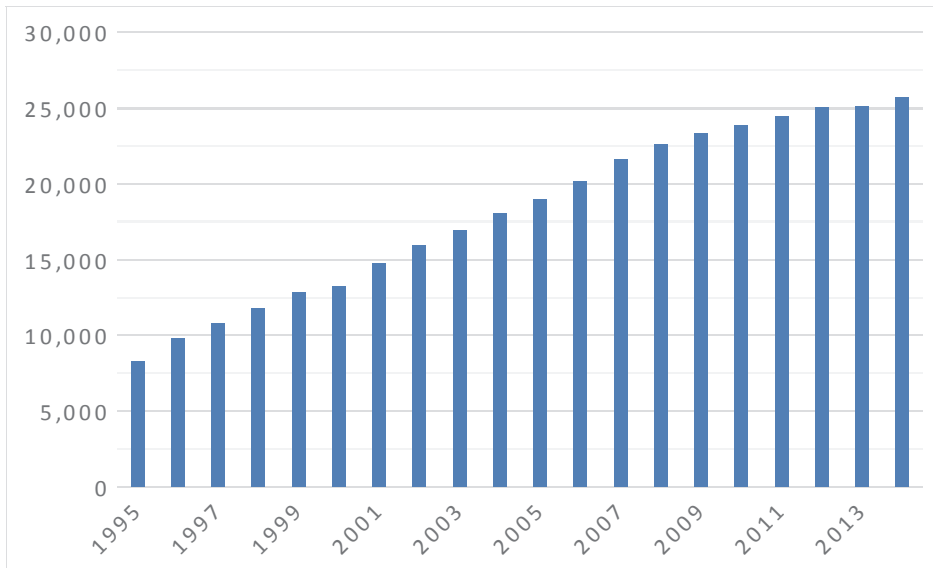
Graph 1: Change in membership base



Source: Annual Financial Reports of Political Parties, Press Releases, Survey Conducted by the Author

Most current studies document the development of party funding based on the nominal amounts in party accounts. The actual currency value had changed significantly over the almost 20 year period and the data presented do not have a valid informative value. This study aims at presenting the changes in the structure of party financing free of described distortions. This can be achieved in two ways. The party funding data can either be decreased by the inflation rate in the given — or rather the previous — year, or it can be expressed by using a different indicator than the amount in Czech crowns. We chose the second option and selected the average monthly salary as an indicator. We chose this option because monthly salary reflects the inflation rate and also tells us how costly the life of a political party was. Operation costs (wages, services, material, etc.) and electoral expenses were beyond doubt affected by the monthly salary rate.¹ We can also apply a useful international comparison. Graph 2 indicates that the Czech average monthly salary increased between 1995 and 2014 more than threefold: at the beginning of the period it was CZK 8,307, at the end CZK 25,686.² Thus, while a donation of CZK 1,000 in 1995 represented 12 % of the average salary and most voters would not consider it a small amount, the same donation was less than 4% of the monthly salary in 2014 and could be labelled as symbolic.

Graph 2: Average monthly salary, Czech Republic, 1995–2014



Source: Czech Statistical Office (www.czso.cz)

The following text describes the development of party funding legislation in the Czech Republic. It presents the volume and structure of their reported incomes, and evaluates the cardinal shortcomings displayed in the Czech system of political financing. In order to organize a free election in the shortest possible period after the fall of Communism in Czechoslovakia in 1989, basic rules for political party activity had to be passed. A brief law³ was passed in January 1990, which contained the basic rules for party registration. The regulation of party economic activities was defined in one sentence, which stated that the same rules applied with political parties as with all other social organizations. A new law replaced the temporary solution in October 1991 and that law, with a number of modifications, is still valid today.⁴ The law defined loans as party revenue but this study does not report them because they have to be returned to the creditors and, thus, it is misleading to include them among party revenues.

Donations and inheritance

The new law from 1991 did not specify the issue of party sponsorship in much detail. Other than banning donations from state and state authorities, it did not specify which types of income were admissible. It legalised donations from abroad and sponsorship from companies with state ownership without exceptions. (Outlý 2003) It did not place limitations on donation amounts for either individual or accumu-

lated sums of money. The law stated that individual donations over CZK 10,000 (2.6 times the average monthly salary) or over CZK 50,000 (13.2 times the average monthly salary)⁵ per person per year should be registered but the registration method was not sufficiently defined. Annual financial reports of political parties were not public at that time and the law did not define any sanctions in case of its violation. Extensive privatisation of state property commenced in the Czech Republic under these conditions of vague regulation of party sponsoring and in the absence of any checks (Frič 2001). This legal framework only became slightly stricter in 1994 and consequently insufficient treatment of political funding also accompanied the 1992 parliamentary election.

The 1994 amendment brought certain changes into the rules of party funding but did not make the situation much more transparent. The law newly defined general categories of admissible revenues but did not make any detailed specifications of sponsorship donations. The duty to register donations was even more relaxed by increasing the limit from CZK 50 to 100 thousand (14.3 times the average monthly salary)⁶ which obliged the parties to keep detailed records. The amended law also gave some competences to the Supreme Audit Office to overview the correctness of the annual financial reports but did not introduce an automatic obligation to make these reports public: only if the Supreme Audit Office found discrepancies in the accounting data, would these reports be made public. That very same year, the Supreme Audit Office lost this competence by decision of the Constitutional Court, which argued that political parties were considered civil institutions by the Czech legal order and that the Office could not interfere with their internal financial matters. It also introduced sanctions for rule violations — the authorities could suspend the party's activities and if such shortcomings persisted, they could ask the courts to dissolve the party.

The current version of regulating donations to political parties was adopted in 2000 and reacted to the scandal which brought down the government of Václav Klaus in 1997.⁷ The law prohibits parties from accepting donations from foreign entities except for donations from political parties and foundations. Foreigners — individuals can only become sponsors if they have permanent residence in the Czech Republic. The bill also states that they cannot accept donations from:

- a) The state (except for state subsidies);
- b) semi-budgetary organizations;
- c) municipalities and regions;
- d) state companies and legal entities with a state contribution over 10 %;
- e) legal entities with a municipal contribution over 10 %;
- f) individuals, who are not citizens of the Czech Republic and do not have permanent residence in the Czech Republic;
- g) charitable trusts.

The regulation does not limit the amount of the donation which a party can receive. There are also no time limitations (donations can be provided at any time). Donations for candidates to either of the two parliamentary chambers are not regulated. Some parties provide a sum of money for personalised campaigns to leaders of candidate lists in the regions and also to the candidates in the Senate elections. Direct sponsorship of candidates by companies and individuals is also common. The law does not regulate this type of sponsorship and is consequently beyond its control. The Conflict of Interest Act⁸ obliges deputies to present a report about their revenues, donations and newly acquired properties but they only have to state those acquired during the duration of their mandates. Donations accepted during the election campaign are not included in these reports. The rules regulating the funding of political parties can be very easily bypassed by direct sponsorship of candidates.

State subsidies

Parties have received subsidies from public budgets since 1990, when the electoral law stated that a party, which received more than 2 % of the votes in the elections to any chamber of the Federal Assembly or the Czech National Council would receive a contribution of CZK 10 (0.003 % of average salary) per vote. Civic Forum received more than CZK 100 million (31 thousand average salaries). The contribution was raised to CZK 15 (0.033 % of average salary) per vote and was paid out as 25 % of the total amount every year. This system changed two years later and the modified version persisted up until the current day even though the amounts paid to political parties and the conditions of electoral gain needed to change. The types of state subsidies have not changed since 1994 and consist of :

- a) a fixed contribution composed of two parts:
 - a contribution for regular activities;
 - a contribution for deputy and senator mandates;
- b) a contribution to cover electoral costs.

Contribution for regular activities is paid out over the entire electoral period (in two semi-annual instalments) to parties, which in the last election to the Chamber of Deputies received at least 3 % of the vote. Since the contribution was introduced from 1994 until 2001, the party which obtained 3 % of the vote was entitled to CZK 3 million per year (428 times the average salary in 1994, 208 times the average salary in 2001). For every consequent 0.1 % of the vote the contribution increased by CZK 100 thousand and if the electoral gain reached 5 %, it did not increase further and it received CZK 5 million. AS of 2001, the activity contribution paid out has been doubled, i.e., it is CZK 6 million (416 times the average salary in 2001,

234 times the average salary in 2014) for 3 % of the vote, CZK 200 thousand for every following 0.1 % of the vote and if the electoral gain reached 5 %, the contribution was CZK 10 million. The Act did not determine how the party could use the finances and did not specify a deadline for their use.

Mandate contribution was set to CZK 500 thousand per deputy or senator in 1994 and the amount did not change until 2001. Only political parties qualify for this subsidy and, thus, it discriminates against independent senators (in the Czech Republic, Senate candidates can — unlike candidates for the Chamber of Deputies — be individual candidates without a party nomination) and they have to cover many costs alone. The electoral reform from 2000 doubled this subsidy. The Constitutional Court ruled this financial advantage of mandate gains inadmissible.⁹ The Parliament passed a somewhat lower increase in 2001 — the contribution is currently CZK 900 thousand per deputy and senator.¹⁰ In 2000, the Czech Republic began to pay out a contribution of CZK 250 thousand for mandates in the newly established regional governments.¹¹ Both these contributions decreased by 5 % in 2010 (345/2010 Act) due to the austerity measures of the government and are currently CZK 855 thousand per deputy and senator mandate or CZK 237.5 thousand per regional deputy mandate a year.

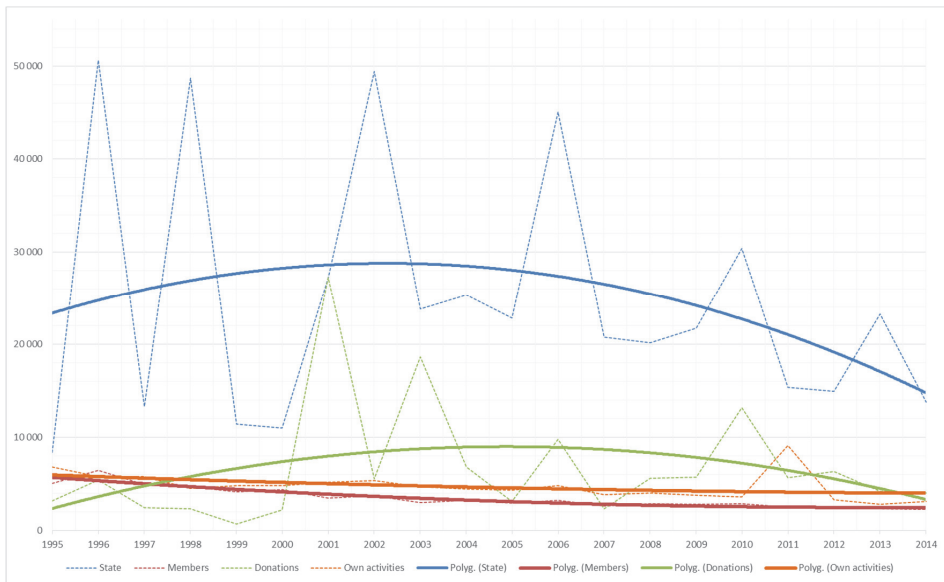
Contribution to cover electoral costs has been as of 1995 paid out as a lump-sum in the year of the Chamber of Deputies election. It also distinguishes between “parties with significant support” but after the interventions of the Constitutional Court, which twice in 1999 and 2001 accepted complaints of small parties, the criterion of relevance was lowered.¹² This state subsidy somewhat illogically considers significant different parties than the activity contribution. When introduced in 1995, the subsidy was paid out to parties, which gained at least 3 % of the vote in the Chamber of Deputies elections; they received CZK 90 per vote. In 1999, the Constitutional Court declared the 3 % threshold as too high and recommended it being lowered to 1 % of the vote. One year later the Parliament (as part of an electoral reform) amended the bill and lowered the criterion to 2 % of the vote. It also lowered the contribution to CZK 30 per vote, which led to another Constitutional Court intervention in 2001. As of 2002, parties which received at least 1.5 % of the vote received a contribution set at CZK 100 per vote. The contribution has also applied to the European Parliament election as of 2003. In the EP election, an additional 1 % of the vote is required and the contribution is set at CZK 30 per vote. Small parties often criticise the subsidy, which is paid out after the election based on electoral gain, because they claim that small parties cannot invest much in electoral campaigns and that this lowers their chances of success. It does, however, cover a substantial portion of the large parties’ (not cheap) campaigns. This argument also served as the basis for both aforementioned constitutional complaints by small parties.

How rich are Czech political parties?

Adjusted data concerning party funding demonstrate that the actual value of the primary resources of funding for the four examined parties (state subsidies and donations) increased in the first half of the examined period and decreased in the last decade. Revenues from own activities and from members had gradually but steadily decreased over the entire period 1995–2014. Graph 3 maps the change in individual revenue components and illustrates a polynomial trend curve for each one of them. Over the entire period, state subsidies remained the most important source of party income but after the constant increase in their value, it began to fall in 2003. It applies to both the fluctuations in state contributions in electoral years and for public financing values between elections.

A similar trajectory could be noticed in party revenues from donations. They were the least important party income in 1995 but their proportion quickly increased and in 2001 reached the same level with state funding. A descending trend was apparent and predictions even indicate that funding from own activities will surpass donation revenues. The total data indicate that the parties in question are in real terms growing poorer.

Graph 3: Party revenues converted to multiples of average monthly salaries, 1995–2014

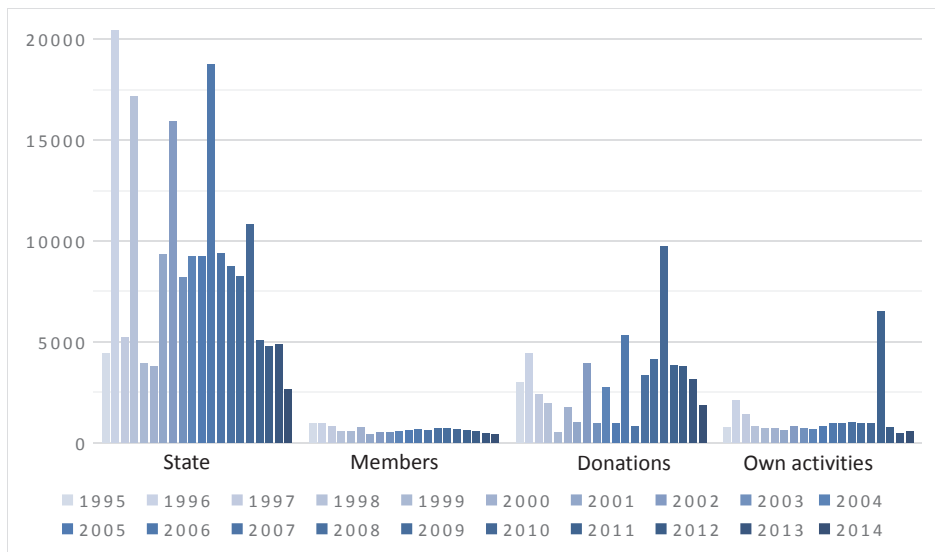


Note: The sum of all four parties' incomes.

Source: Annual financial party reports, www.politickefinance.cz, www.czso.cz, author's calculations.

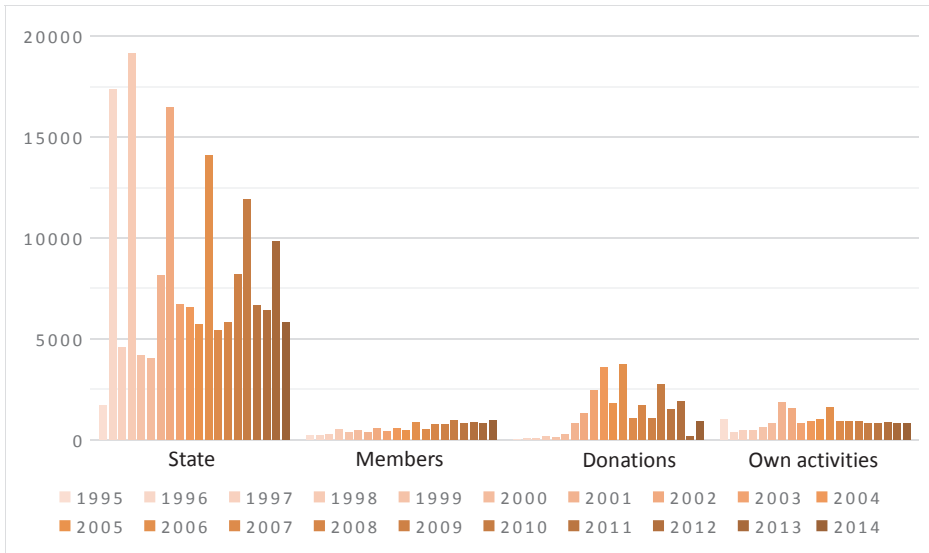
The aforementioned findings relate to the sum of all four parties' incomes. This does not mean, however, that they are valid for each subject. The decrease in the value of state contributions does not concern ČSSD, which in contrast showed an increase in this category (graph 5). Similarly, ČSSD is the only party with an increasing importance in membership fees — the tendency of a gradual increase is evident throughout the entire period. The sharpest fall in income from the membership base was recorded by two of the electorally weaker parties, KDU-ČSL and KSČM (graph 6, 7). We also noticed in these two parties a more gradual but a conclusive fall in the income from own activities. In the case of ČSSD and ODS, donations represented the most important item right after state subsidies, while in KDU-ČSL the second most important item was income from own activities.

Graph 4: ODS



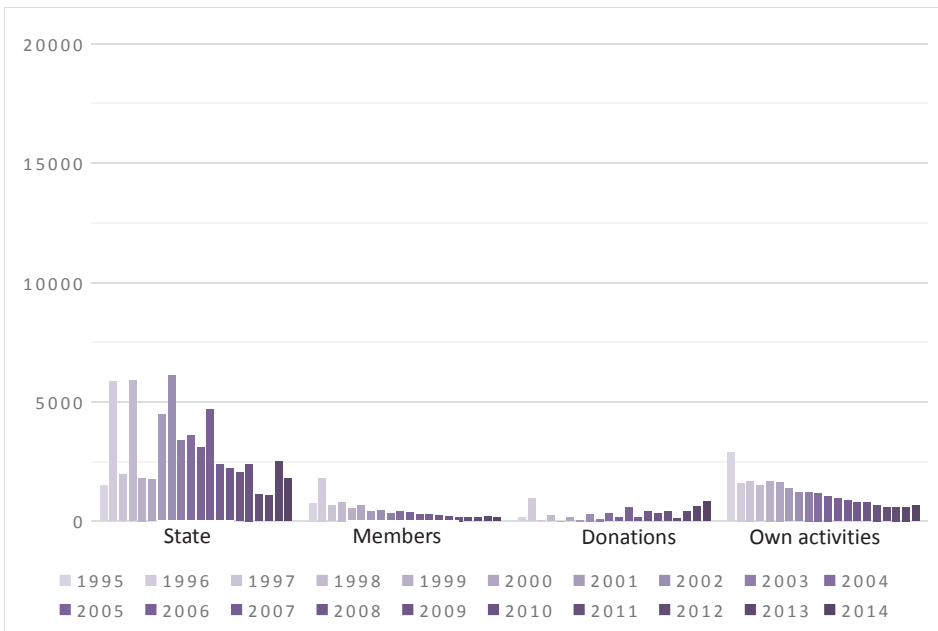
Source: annual party financial reports, www.politickefinance.cz, www.czso.cz, author's calculations.

Graph 5: ČSSD



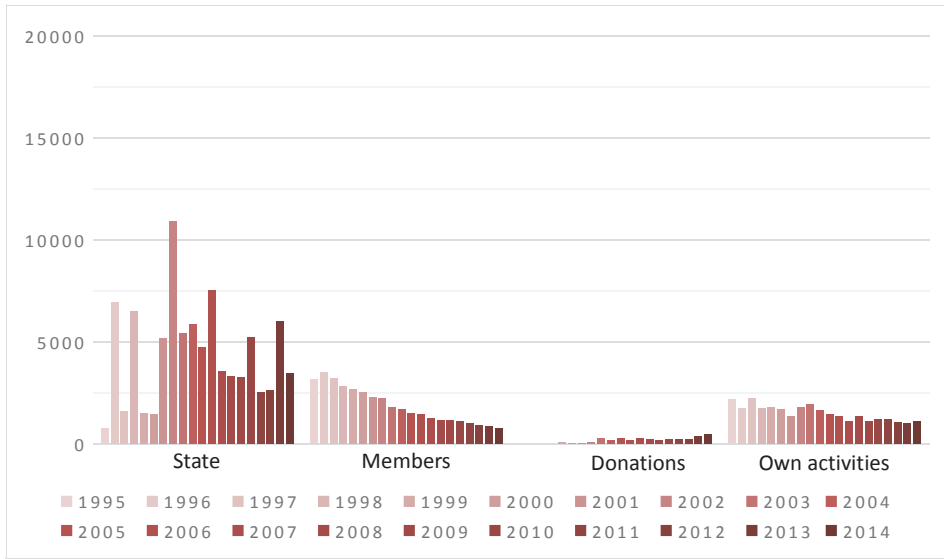
Source: annual party financial reports, www.politickefinance.cz, www.czso.cz, author's calculations.

Graph 6: KDU-ČSL



Source: annual party financial reports, www.politickefinance.cz, www.czso.cz, author's calculations.

Graph 7: KSČM



Source: annual party financial reports, www.politickefinance.cz, www.czso.cz, author's calculations.

Conclusion

The study demonstrated that the actual value of money for the four selected political parties received from the state has decreased. The share of membership fees has also fallen even though not that obviously. Similarly, the income from donations has also fallen over the last ten years or so. The data presented here indicate that the examined political parties have become poorer in real terms.

The objective of reforming political party funding in the Czech Republic was aimed at ensuring a greater share of state funding and to seemingly protect them from massive acquirement of donations. The purpose was to protect them from private companies and from turning them into their vassals. It is apparent that the legislation regulating funding of political parties in the Czech Republic will change. The proposals include limiting their election campaign costs, higher transparency, and should also touch on the issue of state subsidies which requires, however, a detailed analysis of the real costs maintained by the political parties.

Notes

- ¹ Average salary is not a fully convincing indicator of purchasing power parity because due to the considerably uneven distribution of income most people do not earn the average salary. In this respect, a more useful indicator would be purchasing power parity or the wage median in the population. Average salary is, however, standard and easily accessible data for most comparative analyses.
- ² Český statistický úřad. 2015. "Časové řady základních ukazatelů statistiky práce – říjen 2015". Accessible at <https://www.czso.cz/csu/czso/casove-rady-zakladnich-ukazatelu-statistiky-prace-srpen-2015> (11. 11. 2015).
- ³ Act 15/1990 Coll. on political parties.
- ⁴ Act 424/1991 Coll., on association in political parties and political movements.
- ⁵ In 1991 the average salary was CZK 3,792 (ČSÚ, qtd. in Investia.cz).
- ⁶ In 1994, the average salary was CZK 7,004 (ČSÚ, qtd. in Investia.cz).
- ⁷ In 1997, it turned out that the sponsors of ODS included two non-existent foreign sponsors, who donated CZK 7.5 million to the party. It turned out that the money was donated by businessman Milan Šrejber, who won a tender for the steel company Moravia Steel. Václav Klaus' reluctance to draw consequences from this scandal and other inconsistencies in ODS funding led coalition partners to leave the government, which led to its demise.
- ⁸ Act 238/1992 Coll., on selected measures related to protection of public interests.
- ⁹ Czech Constitutional Court's judgement file no. Pl. ÚS 53/2000 from 27 February 2001.
- ¹⁰ It is currently 49 times the average monthly salary.
- ¹¹ It is currently 14 times the average monthly salary.
- ¹² Czech Constitutional Court's judgement files Pl. ÚS 27/09 from 10 September 2009 and Pl. ÚS 53/2000 from 27 February 2001.

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