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A Comparative Analysis of Financing Parties and Elections in Croatia and in Other Countries

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Summary

Comparative politics has shown interest in the topic of financing political parties only recently. The reason for this is the fact that a more systematic regulation of financing elections and parties – apart from Sweden where the process of regulation began in the 1960s – started only in the 1970s and 1980s. Namely, the expenditure incurred by party activities in that period increased significantly everywhere, making the traditional sources of party financing such as membership fees, money raised at party rallies and so on, completely inadequate. Since that time the practice of supplementing these scarce party funds through a system of public subsidies of parties and elections from the budget was introduced.

The regulation of party financing has not taken the same form in all countries and did not happen at the same time. In the United States, for example, elections are financed mostly from private funds. The expenditure for elections and parties has, however, become a subject of public scrutiny and special auditing, while the financial support limits have been precisely determined. Similar processes have been at work in Canada and Australia as well as in some European countries such as Holland. On the other hand, in Austria, Italy, Germany and Sweden, a system of heavy reliance of parties on the budget subsidies has gradually evolved.

Besides the sources of financing, the regulation covers TV promotion of parties and their candidates. In most countries TV coverage for election campaigning cannot be simply bought since it is precisely regulated; all political actors must enjoy equal access to today's most ubiquitous medium. The exception to the rule are the United States where TV time for election campaigning is up for grabs.

And finally, the financing of Croatian political parties is looked into. Unlike in the developed Western countries, financing of parties has not yet been subjected to major regulation. Due to this lack of precise regulation, the flow of party funds is concealed from the public, regarding both its provenance and its spending.

Key words: political parties, budget, financing parties, financing elections, comparative public policy, political finances



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I. Methodological problems of political finances

Although political parties are among the key institutions of political systems and, consequently, a topic of great interest of political scientists, their financing has always attracted more attention of the general public than of researchers. The relevant literature does include a certain number of works on financing of political parties, but that part of the contemporary comparative politics is considered its weakest part. The first to look into the financing of political parties was Arnold J. Heidenheimer in the early 1960s. Later, he co-authored the watershed book from the field of comparative public policies (Heidenheimer/Hecllo/Adams, 1990). After him, the most significant contribution to the research of the sources of party funds was that of the American political scientist Herbert E. Alexander, the author of the first comparative study on party financing (Alexander, 1989).

Does the fact that parties do play a major role in political systems necessarily imply that they ought to be publicly financed? Or should parties, in raising the funds requisite for their activities, rely on private interests? As the German political scientist Karl-Heinz Nassmacher writes: “In all Western democracies, these two closely linked questions have become a public policy issue” (Nassmacher, 2000: 233).

I. “Party money” or political finances

The political debate about party financing today boils down to the opposition along the lines of private versus public sources of financing. A variety of private sponsorships used to be a norm in financing parties practically up to the early 1960s. The first example of public financing of parties occurred in Costa Rica in 1954, followed by Argentina in 1955. The first European instance of this occurred in Germany in 1959. With time, the subsidies from the budget became an inevitable, and in a number of countries the most important source of party funds. The fact is that without the state subsidies it is more or less impossible to bridge the ever-present gap between the money that citizens are willing to give to parties in one form or another, and the money that parties spend in pursuing their extensive activities. The upsurge in the public financing of parties is due to a series of corruption scandals linked with the efforts of parties to secure the necessary funds as well as to the demand to provide a fair political competition.

So, all systems of political financing started with private financing. However, despite this common base, the political developments of the second half of the 20th century resulted in completely different systems of financing. For example, the system in Germany is dissimilar to the system in the United Kingdom or the one operational in the US. Abandoning the model of exclusive private financing did not mean the end of the corruption scandals linked with party financing. On the contrary, in Great Britain, which retained the system of private financing of the parties, there have been almost no scandals of this sort, while in Germany, where the parties for the most part are financed from the budget, corruption scandals are a very common occurrence (money laundering, slush funds). The reason for this is probably the fact that, unlike in Germany, in Great Britain there are no tax incentives, i.e. tax deductions for donations to the parties. This is probably the main reason underpinning the German corruption scandals. If the recent

developments in party financing in Great Britain and Germany are compared, it turns out that in the UK the share of party funds coming from the membership fees has been dwindling and that the major private financiers of the parties are corporations (particularly for the Conservative party) and trade unions (especially for the Labour party). Also, there are no tax deductions for private benefactors; in Germany, more and more funds come from membership fees and the state, and private donations are tax-deductible.

2. Scope of political financing and the comparability of the existing data

The research of political financing in contemporary political science in general, and particularly in comparative politics, does not occupy the place it should as an obviously relevant political phenomenon. There are more reasons for this, but two stand out. The first is the obstacles we encounter when comparing the national data on financing parties and elections, and the second is a lack of a proper theory of political finances.

Michael Pinto-Duschinsky, the British political scientist and a major researcher of political finances, has often reiterated that there are serious shortcomings in our knowledge about international money intended for parties, the activities of pressure groups, secret funds, the real personal wealth of the leading politicians and so on (Pinto-Duschinsky, 1981).

Thus, the issue of financing parties and elections is almost always linked with considerable pitfalls. Based on the experiences of Western countries in this area, the only conclusion you can make is that there is no simple solution for these problems. Also, you can say that a proper review of party financing should include all aspects of raising money for parties and elections, which means that the finances of local branches of political parties ought to be covered as well, the financing of local elections, intra-party elections, financing of party parliamentary clubs and alike. In other words, an audit of party finances should look into the entire party organization, into the institutions directly or indirectly linked with parties, and into different forms of secondary financing, these days quite prominent in party functioning. The data available to the researchers mostly refer to the national level of party activities, while the data about the sub-national or the supra-national levels are often fragmentary and unreliable.

II. Sources of party financing

1. Public financing

Public financing of parties from the budget is a relatively recent phenomenon. It was introduced only in the 1950s (see Table 1), but despite its novelty it soon became the most dominant source of the “party money” in many Western countries. However, financing parties from the state coffers is not a contemporary phenomenon. There have been examples of secret government funds funneled to their own parties or of bribing journalists and members of other parties (Pinto-Duschinsky, 1981: 33).

The secret financing of parties was replaced with the public financing only in the 1950s. The budgetary donations were first given out by Costa Rica and Argentina, fol-

lowed by Germany and then an array of European and other countries worldwide. As a matter of fact, the list of the countries that do not envisage a system of public party financing is extremely short: India, Ireland, Luxembourg, Malaysia, Holland¹ and the United Kingdom.

There are three types of direct state subsidies: the subsidies that cover the cost of electoral campaign and the subsidies for the regular party activities; the subsidies for political parties and the subsidies for individual candidates; the subsidies for the parties' main offices and the subsidies for the regional and local branches and organizations.

Table 1: Introduction of public financing of political parties

Country	Year
Costa Rica	1954
Argentina	1955
Germany	1959
Austria	1963
France	1965
Sweden	1966
Finland	1967
Israel	1969
Denmark	1969
Norway	1970
Brazil	1971
Canada	1974
Italy	1974
United States	1976
Spain	1977
Mexico	1978
Venezuela	1978
Turkey	1983
Australia	1984

Source: Herbert E. Alexander, *Money and politics: rethinking a conceptual framework*, in: Alexander, 1989: 14.

In the first type we distinguish three groups of countries. The first group includes France, Italy (after 1993), Canada and Poland, where the public subsidies are given to the parties solely on the basis of the campaigning expenditure. Unlike these countries, in the second group of countries, comprising Austria, Brazil, the Czech Republic, Greece, Italy (from 1974 to 1993), Japan, Hungary, Germany, Portugal and Sweden, the parties

¹ In Holland, however, there is a system of public subsidies for educational institutions with ties to political parties.

get public grants for their everyday operation. And finally, in several countries the parties get public subsidies both for their everyday activities and the election campaign expenditure. Israel and Mexico belong to this group.

Just as a distinction is made between the regular costs and the electoral costs, in many countries there is a difference between the public grants given to the parties and those given to individuals. Law sets different limits for these two categories of “consumers of public money”; naturally, the parties fare much better than the individual candidates.

The smallest differences among the countries can be found in the third group. As a rule, the state subsidies go to the national offices of the parties and not to their local branches. In this way, party leaderships fortify their power in relation to the local party representatives, creating a sort of dependence. However, there are exceptions to the rule. In Sweden, local authorities have been directly allotting grants to local party branches since 1977. This rule is effective in Croatia as well, which means that local party branches in Croatia enjoy a relatively high degree of financial autonomy and that a basically democratic principle is at work here, the principle that does not exist in many countries. Of course, in federal countries such as Australia, Austria, Canada or the US, the public grants are given out by the federal units as well, but this is not always the rule.

2. Private financing

Private financing of parties has traditionally been a way of collecting funds for their operation. The most important source in the beginning were membership fees and donations of party activists; with time, however, the chief sources of funds have become plutocratic financing and financing by political institutions. But for contemporary political scientists this change in the sources of private financing, though compelling, is not the most intriguing development: the top research priority is the exploration of the relationship between the private and the public financing: pointing out the advantages and disadvantages of private financing as well as the typical regularities of this way of financing in the party system structures.

Private financing has traditionally been a more popular option for the parties of the right than the parties of the left. For the rightist parties, the money obtained from private sources has always been a more desirable form of financing than the money acquired from the national or local budgets. This was a typical and regular feature of all party systems in democratic countries. Political analysts also preferred this type of financing. The biggest advantage of private financing is the fact that this form of raising money fosters a more active participation of party activists and consequently is conducive to a more efficient party organization. Contrary to this, reliance on budgetary funds gives rise to the bureaucratization of parties, reduces the electoral participation of party activists and on the whole encourages the development of the “ossified political structures”.

A relevant political analysis, however, has to take into consideration the negative aspects of private party financing as well because it can result in marked disparities. In the societies with huge economic differences, a few extremely wealthy individuals can

completely control the political scene. Besides, a strong reliance on private financing can lead to corruption. Business people may give money to political parties and individuals demanding preferential treatment in legislative initiatives and lucrative contracts. Finally, the problem with private donations is also that the provenance of that money in many cases is not solely private. Often, the owners of corporations are hundreds or thousands of shareholders who perhaps do not share the same political attitudes of the board of directors nor approve of their decisions to give a party their financial support. That is why experts for political finances today claim that private donations are a desirable source of party finances on condition that these are smaller amounts and that they really come from individuals. Also, they think that such donations should be limited by law. If these conditions are fulfilled, the private financing of parties is preferred to the budgetary financing since it avoids many of its disadvantages.

Private financing of parties encompasses several sources: membership fees, payments by institutional actors (trade unions, corporations), plutocratic financing, profits of party businesses, donations from interest groups and so on. Let us have a look at how the significance of these sources has changed with time and what their importance is today.

Membership fees are the most traditional source of financing political parties. Party membership cards give importance to their owners, and they reciprocate by paying the required monthly or annual sum. In his book on political parties Maurice Duverger warned that this type of financing is characteristic mostly for left-centrist parties: social-democratic, socialist and communist parties. Unlike them, Duverger claims, centrist and right-centrist parties rely to a much smaller degree on membership fees, and much more on the contributions of wealthy members of the society. Later studies have shown that the share of membership fees in political financing depends on the country rather than on the type of the party. The level of the commitment of party members in some countries is extremely high – a good example are Germany and Austria, so that the share of membership fees is high, regardless of whether the parties in question are leftist or rightist. In the countries in which party organization is more loose, for example all American parties, membership fees are a negligible source of financing. In other words, Duverger generalized the situation in France, a country with a big difference between the parties of the left, organizationally strongly structured, and the parties of the right which are much less so (some are even more a movement than a party). Based on this, Duverger has drawn the conclusion about the bigger importance of membership fees in the finances of leftist parties. More recent political science research has shown that the share of membership fees in party funds is getting smaller, and that “in line with the financial statistics of parties that, truth to tell, are not entirely comparable, parties obtain less than a quarter of their total income from membership contributions.” (Nassmacher, 2000: 233).

Another important form of private financing is rooted in the plutocratic principle. Plutocracy is the rule of the rich and is basically an undemocratic type of the legitimation of political power. Different theoreticians of elites have claimed that it is the ownership of huge amounts of money that enables the rich to control and decisively influence the government despite the “one man one vote” principle. The decisive influence of the rich may turn the mapping of collective preferences exclusively in the direction of

the rich members of political communities. Due to this, an increasing number of provisions regulating this type of financing have been incorporated into the legislation concerning parties and elections.

Let us have a brief look at the trends in the plutocratic type of financing political parties. Plutocratic financing peaked at the end of the 19th and the beginning of the 20th century, particularly in the most developed countries such as Great Britain and the United States. The main source of party finances were wealthy individuals. After that institutional financiers (trade unions, corporations) began financing parties, which gradually reduced the importance of the funds from plutocratic sources. The significance of the plutocratic money was further reduced when states began financing parties in the 1950s and the 1960s. Nevertheless, the diminishing share of plutocratic financing has not been a linear trend. In the semi-democratic systems of Asian countries (“Asian tigers”), the importance of extremely wealthy individuals in financing political parties is still relatively high. Equally, unlike the period between the 1950s and the 1970s, when the importance of the role of the public financing increased and that of the plutocratic financing decreased, following the “neoliberal revolutions” and the trimming of the benefits of the welfare state in many developed Western democracies, a big group of nouveau riche emerged who generously rewarded such measures of the parties in power with their private money. Thus in Great Britain, for example, one increasingly hears about the need to revive the plutocratic form of financing parties and candidates. At the same time, more and more money from plutocratic sources is being channeled to the left-centrist parties (an excellent example is the British Labour party led by Tony Blair), traditionally not on the receiving end of rich people’s donations.

In many Western countries, laws regulating parties or elections subject the plutocratic financing to strict regulation, particularly in the United States. All the donations exceeding a certain (small) amount must be publicly disclosed so that legally it is not possible to give a candidate a donation without a public record of that transaction. However, there are numerous techniques for circumventing such legal provisions: breaking a big donation into several smaller ones which then do not have to be reported, lending money to parties in the form of loans, donating money to the politicians’ personal funds and not the party budgets.

The institutional financing of parties and elections reached its apex and is now less frequently a source of party finances. Donations by trade unions or individual corporations were traditionally associated with the clear-cut interests that those actors linked with governmental decisions. As a rule, trade unions financed social-democratic and communist parties because these parties would try to push through the legislature some laws regulating labour issues, the lowest wage and similar things. Presidents of the boards, in their constant quest for more secure profits, as a rule supported conservative and liberal parties that tried to lower the taxes, deregulate business and so on. Both groups tried to financially help those parties that were going to further their interests. Such financing was the consequence of the fact that the dominant political cleavage ran along the line of the class division into the entrepreneurs and the middle class on the one hand (supporting the conservative and the liberal parties), and the working class on the other (supporting the social-democratic, socialist or communist parties). The country in which this type of party financing was traditionally dominant had been Great Britain.

However, with a gradual transition from the industrial into the post-industrial society, the significance of such division became obsolete. At the end of the 20th century, political conflicts no longer revolved around such divisions, and this weakened the significance of the institutional financing.

3. Corruption and illegal financing

Illegal financing of political parties and elections is a problem besetting all political systems. Recently, this issue has become a topic of interest of researchers. One of the most significant contributions to the research of this phenomenon is that of the American political scientist Susan Rose-Ackerman in her book *Corruption and Government: Causes, Consequences and Reform* (Rose-Ackerman, 1999).

First, the author lays down the universal normative stance regarding the financing of political parties. According to this perspective, democratic political systems must find a way for financing political parties and political campaigns without encouraging politicians to sell out to donors and providers of money. In her opinion, legislation in the developed Western democracies has developed some very precise legal mechanisms that regulate the possibilities for financing political parties. Legal forms of donations, as well as various forms that are not strictly legal, are controlled by the public and the judiciary.

Why such control? The answer lies in the simple fact that the manner in which parties are financed can have a deep impact on democratic institutions. If the interests of various groups or individuals differ from the interest of the general public, democratic values may be undermined. In that case, the electoral process serves as a means for disciplining politicians in order to make them promote the interests of their electoral body. Namely, voters can punish politicians/parties that seem particularly strongly attached to certain interest groups. However, the key requirement for that is that the voters know something about their representatives' behavior and who gives them money. Corruption can be the end result even if donations are allowed by law if the manner in which they have been obtained has not been disclosed to the public.

In her book, Susan Rose-Ackerman lists several evident examples of the misappropriation of money for political purposes. In 1977 in North Carolina, a dispirited construction firm that had not derived the expected benefits from its donation in the form of contracts for public works, demanded the return of the money it invested into the electoral campaign of that state's governor. Also, research by some Japanese political scientists and sociologists has shown that the politicians helping local companies to get contracts demand a percentage of the value of the contract as a reward for their efforts. In Spain in the 1990s there was a series of scandals concerning the attempts of some politicians to secure funds for their parties from banks and private businesses by billing them for fictional consulting services. And finally, the most notorious case of embezzling private money for political purposes happened in the last decade in Italy, in the so-called "clean hands" campaign. Party leaders installed the quasi party officials in the posts in which bribery had become routine. Construction industry was a particularly profitable source of income. Specialized "money collectors" organized bribe-taking and

contracts for non-existent public works. Although officially these people were not politicians, de facto they were; as people enjoying special trust of the party leaders, they were the middleman between the employers and the government officials in securing jobs financed by public money.

III. Non-monetary subsidies and indirect support

1. Access to the media

There are numerous studies about the importance of TV coverage for the success of a party and its candidates and we are not going to go into this. Nevertheless, it should be pointed out that a fair distribution of TV time among all political parties and candidates is one of the key aspects of the regulation of political financing all over the world. One of the most important examples of the indirect subsidies is free access to the media, particularly television. Free TV coverage should thus be considered a sort of indirect public subsidy. The exception to the rule are the US in which TV coverage must be bought, and there are no time limits. It is thought that this is one of the main reasons for a sharp rise in the cost of campaigning in the US.

There are several open questions concerning free access to television. The first is a possible unwillingness of TV producers to provide ample time for the promotion of parties and candidates. According to the opinion of media theoreticians, the fundamental reason for this is the fact that such programmes do not attract big audience. Since TV producers' top priority is to achieve highest possible rankings, they tend to be loath to giving up too much space to election campaigns. Another major problem is a fair distribution of TV slots to various parties. This is a sensitive issue. If the distribution is based on the results of last elections, the newly formed parties and those whose popularity has soared in the period after them will be deprived. If, on the other hand, the TV time is distributed to all parties equally, minor and radical political options get the public exposure entirely disproportionate to their real political clout. Despite these problems, the fair distribution of TV time and the TV coverage of electoral campaigns in the electronic media represent a major contribution to the democratization of political process.

2. Indirect financing

A review of financing political parties and elections is not complete without an assessment of the role of indirect financing, both private and public. There are several forms of indirect financing. Regarding the "public money", i.e. the sphere of public finances, parties may exercise two sorts of privileges: tax deductions and tax loans. The example of the first is the German solution: if you donate an amount of up to 3,000 Euros to a political party, that amount will be deducted from your total income and thus your tax base is lowered. The second form of indirect financing are tax loans. They exist in Germany (for the donations of 1,500 Euros per person), but also in some other states. In Canada, for example, there is the following system: 75% loan for the first hundred donated dollars, then a 50% loan for the donations between a hundred and 550 dollars, and the 33% loans for the donations between 550 and 1,150 dollars. This simply means

that a person who donates a hundred dollars to a political party pays only 25 dollars, while the rest is supplemented from the national budget. The direct consequence of such a form of financing is the reliance of political financing on many small contributions, thus reducing the role of major donors. In other words, financial sources of party finances are dispersed, which makes corruption less of a possibility and is more conducive to making financing more in line with the essence of democratic decision-making, contained in the motto: one person, one vote.

Another form of direct financing are the so-called “party taxes”. Today’s political scientists consider this practice one of the perks that party leaders provide to their supporters after they get hold of power. Most often this takes the form of finding employment for their supporters in civil services and of the preferential treatment of the donor companies when contracting out. Since they have authority power in the process of the distribution of public resources, party officials are expected to turn over a portion of their salaries to their party’s coffers. In US, for example, people who get a job in public services despite their inadequate qualifications are obliged to turn over a portion of their salaries to their respective party machinery.

And finally, another major form of indirect financing are political foundations. Though formally independent, they have ties to political parties. The most developed system of political foundations can be found in Germany, while in the rest of the continent the foundations are also politically influential. They cannot participate in the elections directly, but they do so indirectly by organizing political education of party members and activists, pre-election polls and analyses and by helping sister parties abroad.

IV. Public control of party finances and their regulation

The regulation of party financing has with time become the most interesting issue of the entire field covered by the terms political finances or party money. In western democracies, regulation of that area by laws and by-laws has become extremely detailed and sophisticated. The general principles concerning the financial sources from which parties and/or independent candidates can be financed in elections have been replaced with very precise provisions about the manner in which party funds may be used, regardless of whether they come from the private or the public sphere. The regulation of party finances covers a plethora of issues concerning the manner of collecting and distributing “political money”. We are going to focus on the following: setting the limits to party expenditure and earnings; provisions concerning the public disclosure of party finances; bans on certain types of income and certain types of spending.

1. Limits to earnings and spending

Limits to spending refer primarily to the electoral activities of parties. As a rule, financing of everyday party activities is not subject to any limitations. The issue, however, is whether it is possible to properly distinguish between the regular and the electoral party activities. The second important question is that of the non-monetary aid that parties very often get in their electoral campaigns. So, is an effective control of party

spending possible in the situation when parties pay for an array of services not with money but in kind (publicity materials, printing expenses, free transport, etc.). Regardless of the disagreement over which items should be included in the real expenditure, in many countries the limits to campaign spending are set by law.

In Great Britain there are limits for individual candidates who run for the national parliament. These limits, however, do not apply to the national party head office. In the US, on the other hand, there are limits to the electoral campaign spending of the candidates who have been given public grants. In Canada there are precise limits to the prospective campaign spending for all political parties, not solely for individual candidates.

This setting of the limits to financial spending must be accompanied with a series of administrative rules that control these limits. First, it is necessary to devise a controlling mechanism by means of which expenses are to be approved prior to actual spending, i.e. a public representative who will be responsible for this. In order for the sanctioning of exceeding the established limits to be effective, there are penalties or mechanisms for the implementation of the rules. In Great Britain, the candidates for the national parliament who exceed the permitted financial limits have to quit, i.e. drop their candidacy for MPs. Their political opponents have the right to bring legal action to regular courts to impose sanctions for breaking the limit. In Australia, Canada and US, you cannot bring such charges to regular courts but to a special electoral administration. In US this is the responsibility of the Federal Electoral Commission, a financially independent institution, organizationally structured in such a way that it can autonomously monitor the observation of financial limits.

The purpose of setting the earning limits is reducing the risk of the prospect of parties or candidates becoming too dependent on big donators. The limits are enforced in a number of ways, sometimes for parties, sometimes for candidates. In Italy, for example, there are no limits regarding the political parties, but there are some for individual candidates.

The way in which the limits are determined varies. They can be expressed in the form of a certain amount of money, a percentage of the donator's income or assets, or based on a certain point of reference, for example average salary. Among the countries in which the limits depend on income are: Brazil, France, India, Italy, Israel, Japan, Mexico, Russia, US, Spain, Taiwan, Turkey. It should be noted that the limits in most countries apply only to certain groups of donators. In Israel the limits are applied to individuals, in India to companies, in Mexico to non-profit organizations. On the other hand, in many countries such limits do not exist at all: Australia, Czech Republic, Greece, Canada, Holland, Germany, Sweden and Great Britain.

The actual figures of the limits are very interesting. In US, individuals can give to a candidate running in federal elections up to a thousand dollars, 5,000 dollars a year to a party's Committee for political activities, and 25,000 dollars a year to a party's national committee. In Italy the limit of financial support from any source is 20 million liras, in France 50,000 francs for a party and 30,000 francs for individuals candidates.

2. Public accounting for party financing

The essence of the liability regarding party financing is the attempt to enhance accountability in the use of political money and to avoid corruption. The manner in which parties account for their finances greatly differs from country to country. It is possible to pick out a few elements, though, which are selectively applied in different countries.

First, we can separate the obligation of disclosing the expenditure from the obligation of disclosing the earnings. As already mentioned, in Great Britain candidates for the parliament are obliged to account for their spending, but not to reveal the sources of their earnings. There are big differences in the scope of public disclosure of political finances. In most countries only the total amounts and the main items of earnings and spending must be reported. In some countries, however, full reports on all earnings and spending are the norm. A further distinguishing element is the difference in the treatment of political parties and individual candidates. In Great Britain, for example, only the finances of candidates must be reported, and in Germany the finances of the parties. Similarly, some countries make a difference between the funds used for campaigning and the funds used for the everyday functioning of parties. For example, in Germany the data about all party earnings and spending are regularly reported, and campaigning expenditure is not separately listed. The same applies to Sweden.

Two particularly sensitive issues are: who is obliged to publicize their financial reports and who should such reports be addressed to. In that respect, one should distinguish between the system based on the donators' obligation to make public their donations and the system that obliges the receiver of the donations – a political party or a candidate – to do so. In Great Britain donators are obliged to report about their donations, while in most countries of continental Europe this responsibility lies with those who get the donations. And finally, the manner of presentation of political financing is not clear, either. It is commonly believed that the public disclosure of party financing involves informing the public via the media. However, in some countries, the obligation of disclosure does not imply the public, but only special auditing agencies that supervise political finances.

Thus the manner of public accounting for party or individual candidates' finances depends on the system of regulating and financing parties and elections. The only undisputed thing is that the obligation of public disclosure of political financing is generally considered to be the key element of their reform. One of the leading researchers of political finances, the American political scientist Herbert Alexander says: "The argument is that an effective system of public reporting is to bring about financial responsibility, increase the public trust in the electoral process, and curb excesses and abuses by increasing the political risks for anybody who is involved in unfair or illegal campaign practices" (Alexander, 1976: 172).

V. Regulation of party financing in Croatia

1. Legal framework

The operation of political parties in Croatia is regulated by the “Law on political parties”, adopted in 1993. The provisions about party financing can be found in Part III (Articles 18-22). Article 18 briefly list the possible sources of party financing: membership fees, donations, earnings from publishing and the sale of publicity materials, the organization of party rallies, state and local government subsidies, profits from party-owned companies. The following article claims that the parties whose candidates were elected for the Sabor receive on the one hand a fixed allotment for their work and on the other a variable part which depends on the number of their party members in the Sabor. The funds for the political parties are allotted by the Sabor Committee for the selection, appointments, and administrative affairs.

The public accounting for party funds is regulated by the other Articles. Article 20 stipulates that the parties are obliged to publicly disclose the provenance and the intended use of the funds obtained during one year. If they do not keep business records of their earnings or obtain them illegally, the parties forswear the right to state subsidies. The next Article stipulates that parties should keep business books in accordance with the regulations valid for non-profit juridical persons. And finally, the last Article of part III of this Law stipulates that all state-sponsored political parties are obliged to submit to the Sabor every year their annual statement of accounts for the previous year. This statement should be reviewed by the State auditing office.

In comparison with the regulation practiced in some other, especially Western countries, the regulation of party financing in Croatia is rather rudimentary. The provenance of the party money, the manner of its spending and the control of that spending are not by any means clearly defined. Parties are left to their own devices. Croatia is in the stage that democratic countries went through in the 1960s and the 1970s, when public financing and public control of political finances were being introduced. But the Croatian system has some progressive elements such as the provision that regional and local bodies may finance political parties. Such a provision, a rarity in other countries, also exists in Sweden. It diminishes the dependence of local leaderships of political parties on national party leaderships, which is conducive to the democratization of political life. Regardless of all this, Croatia has yet to implement a more comprehensive regulation of party financing that should in mid-term result in the introduction of the system that is at work in the developed European countries.

2. Sources of financing political parties in Croatia

Croatian political parties do not account for their earnings and spending on a regular basis. Sometimes, mostly concerning the parliamentary or presidential elections, they do submit rough reports about the cost of the election campaign, but they are never accompanied by the full information about party finances. This is illustrated by the fact that until 2001 political parties did not use to submit reports about their earnings and spending and their assets, not even to the Sabor Committee for Constitution, Statutes

and political system, although they were obliged to do so by the existing Law on political parties. The reports included the statement of party finances for the previous year (1999). That year was much more interesting as the costs of financing the campaign for the parliamentary elections were included in the 1999 report (the date of the parliamentary elections having been 3 January 2002).

The parties submitted two kinds of reports: the income and loss statement, and the balance sheet. The balance sheets are not of a particular interest to us since it deals with the assets and the liabilities of political parties. We are predominantly interested in the income and loss statement, particularly its income section. Included in our review are two most significant opposition parties: Hrvatska demokratska zajednica (HDZ) (Croatian Democratic Union) and Hrvatska stranka prava (HSP) (Croatian Party of Rights), and three out of five parties of the ruling coalition: Hrvatska seljačka stranka (HSS) (Croatian Peasants' Party), Liberalna stranka (LS) (Liberal Party) and Socijaldemokratska partija Hrvatske (SDP) (Social-democratic Party of Croatia). Two parties of the ruling coalition: Hrvatska narodna stranka (HNS) (Croatian People's Party) and Hrvatska socijalno-liberalna stranka (HSL) (Croatian Social-liberal Party) have never submitted their financial reports for that year.

The data from *Table 2* show that the earnings of the political parties in Croatia are largely government subsidies as is the case in most countries of continental Europe. The only exception to the rule used to be SDP, since very high 55 percent came from the party's personal earnings, most probably property-related income and corporate donations. In their 2000 statement, however, government subsidies prevailed in the income of this party as well and amounted to 59% of the total party budget.

Table 2: Structure of income of political parties in Croatia in 1999 (in thousands kunas)

Type of income	Parties				
	HDZ	HSP	HSS	LS	SDP
1. Subsidies	21,213	1,628	3,900	1,198	5,753
2. Membership fees and remuneration	-	-	172	336	373
3. Income from providing services	-	-	96	-	-
4. Other	2,770	63	617	73	7,329
Total earnings	25,387	1,691	4,785	1,607	13,455

Source: Sabor Committee for Constitution, Statutes and political system

Note: The sum total of the itemized earnings does not add up to the sum total of the earnings of the HDZ's party budget.

The second major feature of the system of party financing in Croatia is the negligible role of membership fees. Although these fees represent a significant source of income for many parties of continental Europe, this is not the case in Croatia. A rather curious paradox is at work in Croatia. The party with the largest membership (HDZ) does not include membership fees in its report of earnings, while the relatively small Liberalna stranka (LS) has the biggest share of membership fees in the total earnings (12 %).

The third feature of the party financing in Croatia is the general intransparency of private financing. The income from those sources is included under the category of other earnings since neither the Law on political parties, nor the provisions on the book-keeping of non-profit organizations envisage a more precise obligation for disclosing the source of the funds. Thus a major, and for some parties even the most important aspect of the source of their income remains unknown.

And finally, an attempt should be at least made to bring the overall presentation of party financing in line with the European standards, which will probably call for more pertinent statements of financial operations. Managing political finances in the democratic world today is a highly sophisticated enterprise; the Croatian political parties are still a distance away from undertaking it.

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