

Financing Politics – A Comparative Analysis of Bulgaria and
Hungary

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Submitted to
Central European University
Department of Political Science

In partial fulfillment of the requirements for the degree of Master of Arts in Political Science

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Budapest, Hungary
2008

Abstract

This master thesis investigates the relationship between money and politics. The research is based on the comparative analysis of Bulgaria and Hungary and it focuses on political parties' financial channels. According to the legal basis, the two countries should differ in terms of major sources of contributions – for the Bulgarian case these should be private donations whereas for the Hungarian – public subsidies. The thesis gives evidence that parties from both states are mainly financed by the private sector but the way this happens is different – in Bulgaria entrepreneurs and corporations contribute directly, while in Hungary they do this through powerful party foundations.

As in both examples donors have to comply with legal and moral norms and bans, the real size of contributions remains hidden. However, it is still possible for voters and experts by observing the expensive campaigns to be aware of the illegal financial practices of parties. Thus, the big size of contributions and their unclear origin limit the electoral success of political actors and they are not able to reach their maximal level of potential. In the same time, if parties respect the official norms they wouldn't be able to organize their campaigns. The result is a vicious circle that can only be broken by legal reforms in the field of political funding.

Acknowledgements

This master thesis wouldn't be possible without my cooperation with professors, friends and recognized professionals.

For the “Bulgarian part” of my work I would like especially to thank to Mr. Antony Todorov (Presidency of the Republic of Bulgaria) for being the first one to believe in my researcher's talents, for accepting to work with me for a second time and for giving me his precious advices. Mr. Antony Galabov (Bulgarian Academy of Sciences) also showed me his continuous support – thank you for the conference! Mrs. Katia Hristova-Vatcheva, the program director of Transparency International Bulgaria, was the one who gave me unlimited access to the NGO's knowledge and stayed with me since the moment I presented her my project – the words are not enough to express my thankfulness to her. I also owe a lot to my close friend Boris Stanimirov (Bulbank) - one of the guilty ones who developed my passion for politics – thank you for the political summer of 2005 and for everything you did for me!

Coming in Hungary, I also met a lot of sympathies and responsiveness. My major source of scientific and practical competences came from Mrs. Andrea Nagy (Ministry of Justice and Law Enforcement of Hungary) who helped me with a lot of data, legal materials and information – dear Andrea, I absolutely wouldn't manage without you, thank you very much! Mrs. Agnes Batory and Mrs. Noémi Alexa from Transparency International Hungary completed my database with significant analyses and sources. Another precious contribution came from Levente Littvay (Central European University) – thanks for the useful conversation and contacts, the friendship and the music you gave me! Finally, last but not least, Mr. Gyula Prath from Tàncsics Alapítvány who revealed for me the secrets of the foundations' life.

I kept for the end of my list of acknowledgements the person who influenced the most my work – my supervisor professor Robert Hancké. Thank you Bob for the faith in me, for always being there, for giving me stability and courage; thank you for giving a chance to my scientific madness!

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Introduction

According to Harold Lasswell, politics can be defined by the formula “who gets what, when and how”. At first sight, this statement can seem to us a bit cynical but indeed, if we appreciate it as such, we are the cynical ones. We are used to thinking of politics as something dirty and unfair and this determines our opinion about it. Despite this popular thinking, politics are supposed to be made by and for people. This “who” must be us; the thing we get should be the free and worthy life in a liberal democracy; we have to get it when we are ready for it and the way it should happen is by our common efforts.

Indeed, humans are supposed to be born with a kind of natural innocence and optimism. It is the process of gathering experience that makes their appreciations more realistic. But what is realistic and, especially, how does this category apply to politics?

In this thesis, in search of a kind of political realism, I will provide the reader with an answer to the question: “Does money that political parties received from different channels has an impact on election results and if they do, what is it?” The answer will be found by making a comparative analysis of Bulgaria and Hungary - Eastern and Central European states, sharing common post-communist experience and political hopes for the future. The two countries were chosen also because they represent two models of party funding that are supposed to differ on sources, meaning more private donations in the Bulgarian case and more public subsidies in the Hungarian. The research gives evidence that actually they differ in another category - the way money is absorbed by the parties (direct and indirect patterns). Despite the opposing legal norms that Bulgaria and Hungary have (Appendix 1), in both countries parties are indeed mainly financed by the private sector. However, in both of them, election results cannot justify parties’ investments in campaigns and the explanation that comes from the

particular examples is connected to the kind and size of sums that parties receive. They determine some of the major election strategies which cannot lead to success because the financial sources for them are not “clean” – they come from firms and entrepreneurs that have their proper interests which they try to realize by donating to politicians. As voters are aware of this situation, they cannot react to campaigns as positively as expected and in this way any extravagance in parties’ expenditures leads to harmful effects on the electoral participation and trust.

This paper will also contribute to another very important topic - morals in politics – something that is even more urgent in relatively new democracies like Bulgaria and Hungary. The debates on money in politics in the scientific milieu, as well as among citizens are intensifying with every single day in parallel with the increasing number of scandals on the political scene, provoked by disclosures of financial abuses and even corruption. I will not try to find a panacea for the problem, as in my opinion, it is a matter of limitation, not healing. Instead, the research question will concentrate on the understanding of the main source of troubles – private donations – and on their impact on the election campaigns and policies, adopted by the parties. I will analyze how the existing differences between them influence the success of the election campaigns and the political communication.

My hypothesis in this research is that the lack of contribution ceilings for the private donations or the presence of ineffective ones in addition to the level of economic freedom of political parties has a negative impact on election results. This is in the sense that the big financial support coming from firms or natural persons (in opposition to public funding) and the possibility to develop economically strong foundations do not necessarily maximize the chances of a party to win the vote. Here, I have to emphasize that I am far from claiming that

a big and rich party will lose the elections. What will be developed and proved in the core sections of the thesis is that excessive and demonstrative financial resources, coming from the business sector and used for the construction of a political strategy, frequently lead to damage to the image of the party and limit its electoral potential.

With every single year the organization of elections is getting more and more expensive. However, people do not like too rich parties and expensive campaigns because they seem suspicious. Politics itself is becoming a more expensive occupation. First, the prices of services provided by experts are getting higher; second, the simple competition between parties for the “best” campaign also leads to increasing expenses and third - public subsidies are never enough. All these issues will be debated along a few subtopics – political parties’ legislation and reforms, institutions for fiscal control and their rights, political corruption, trust crisis between politicians and electors, political legitimacy and representation, political communication, interest groups and money.

In order to deal with this and the other important debates, I will include some literature contributions that can be divided into four groups – legislation, statistical data and reports, analyses and handbooks.

The first group of sources is the legal basis. For the Bulgarian case I will include the Law on Election of President and Vice President of Republic of Bulgaria (1991), the Law on Local Elections (1995), the Parliamentary Election Law (2001) and the Law on Political Parties (2005). For Hungary, these will be the Law on the Operation and Financial Functioning of Political Parties (1989), the Law on the Election of Members of Parliament (1989), the Law

on the Party Headquarters (1991), Law on Party Foundations (2003), the Law on Lobbyist Activities (2006) as well as the Law on State Assets (2007).

The second type of documents that will be used are statistical data and reports: the annual and post-elections official reports of the political parties in Bulgaria and Hungary before the controlling institutions from the last few years as well as information about the evolution of the donations and spendings of political parties. Another issue of interest will be the distribution of money received in campaigns and every-day activities.

The third source of information will be some good analyses on the connection between money and politics, with the focus on campaigns, including works by Stephen Coate, Jan Potters et al. and Brad Alexander.

According to Stephen Coate¹, campaign finance policy can be Pareto-improving in the sense that on one hand, it helps lobby groups to express their interests by contributing to campaigns and thus by having an impact on what is going on; on the other hand, this situation is also favorable for electors because well financed campaigns help them to receive better information on the better political candidates. But, if the contributions (the private ones) are not restricted and if the candidates have a strong desire to hold office, significant spendings become less effective, because the presence of these factors repulses many potential voters.

Jan Potters, Randolph Sloof and Frans van Winden² make three main statements. The first one is that the major role of campaign financing is to provide more information. Such data

¹ Stephen Coate, "Pareto-Improving Campaign Finance Policy", *The American Economic Review*, Vol. 94, No. 3 (June 2004): 628-655.

² Jan Potters, Randolph Sloof and Frans van Winden, "Campaign Expenditures, Contributions and Direct Endorsements: The Strategic Use of Information and Money to Influence Voter Behavior", *European Journal of Political Economy*, Vol. 13, Issue 1 (February 1997): 1-31.

transmission from the candidate to the elector is only possible if there is some congruence between the voter's and the challenger's interests. The second idea is that in the case of not sufficient congruence of this type, if the interests of donor and voter coincide, this overlap will reassure the elector about the candidate's position. Third, a donor will prefer to contribute financially to a party instead of reaching the voter by direct endorsements because this indirect strategy allows him to have impact on wider public.

Brad Alexander³ observes the big normative debate on the impact of different financial sources in elections and he finds the examination of the practical side of the issue is quite insufficient. His scientific contribution will help me to prove that the kind of funding matters (in our case this is the private one) for the efficiency of the campaign efforts and for the electoral results.

The fourth and final literature source will be some handbooks dedicated mostly to election campaigns funding and to political corruption.

Naturally, in this research I will use the investigations of many other information channels and scholars but what I want to do here is to give indications for some of the main directions that my paper will take. However, the scientific product that will be elaborated will depend on the methods that I will use for finding facts and proofs of my arguments.

The main research method will be the comparative analysis. Nevertheless, I will not concentrate on the two countries, but on their different models of political funding. Furthermore, I will also include a comparative analysis on a few election campaigns that have

³ Brad Alexander, "Good Money and Bad Money: Do Funding Sources Affect Electoral Outcomes?", *Political Research Quarterly*, Vol. 58, No. 2 (June 2005): 353-358.

taken place in Bulgaria and Hungary in the last years. I am not that particularly interested in the construction of a perfect theoretical model; instead, what I want to find out is how things work in real life. Because in politics, there is nothing more real and alive than election campaigns, a couple of demonstrative examples will be taken and opposed to what is advised in some popular handbooks for campaign management. The result cannot be called “truth of general validity” but “understanding on some key details that can radically change the situation”.

The thesis consists of five main parts – introduction, body of the paper (three chapters) and conclusion. The first chapter after the introduction will be theoretical and will examine the existing scientific researches in the field of social sciences concerning party funding. The second chapter will investigate the policy of financial restrictions on political parties in Bulgaria both in terms of donations and ownership of business and will focus on the ways in which legal bans are evaded. Here, the country and its electoral practices will help us to present better the model in its completeness. The third chapter deals with party funding model, whose representative country is Hungary. In this part of the analysis I will reveal the arguments and mechanisms that make function the “complicated economic freedom” that is observed there.

The expected value and contribution of this master thesis three main elements. In the first place, this research draws a parallel between theory and practice giving arguments in favor of both. Second, it compares two countries from the same region which, however, chose at the beginning of transition different paths for their parties’ financial regulation. Third, I will also analyze the big entrepreneurial contributions and election campaigns in general which are

frequently balancing at the edge of the law and implying the hard topic of political corruption and legitimacy crisis.

Chapter I

Theoretical Approaches

The topic of this master thesis “Financing Politics – A Comparative Analysis of Bulgaria and Hungary” presupposes a serious theoretical, as well as practical debate. In this section, I will present the theories in order to be able to use them as a basis for my further reflections on the issue.

My research on party and campaign funding, with emphasis on the problematic areas, is directly connected to a few subtopics that need to be explored in order to construct and follow the causality of phenomena and to understand the main actors and their relationships. With the purpose of being clearer and logical, I offer the reader a model that explains the situation of political financing in Bulgaria and Hungary. This model consists of four subtopics that lead one to another – lobbyist and interest groups activities (private business), corruption in parties, political communication and role of money. All of them will be applied, using theories from different authors that will give us specific points of view.

1. Lobbyist and Interest Groups Activities

Jan Potters, Randolph Sloof and Frans van Winden offer us in their research “Campaign Expenditures, Contributions and Direct Endorsements: The Strategic Use of Information and Money to Influence Voter Behavior” three possible factors that influence voters when they have to choose between political parties – the past experience, the campaign and/or the endorsements by interest groups. All these three elements can be usually seen in the messages and strategies that candidates and parties apply. However, sometimes it happens that they are not expressed clearly enough and this creates lack of transparency and understanding between political actors and society. As a result it is possible that electors do not understand in the

right way the messages sent and the policies declared. Thus, after the vote, they could think that they have been manipulated or even laid by the politicians.

However, according to the authors, there are three possible scenarios: (1) the voter can receive very rightful nonverbal information about the expenditures in the campaign (that can be easily seen) and this data will become a tool that will help him make his choice in the elections. He will prefer the candidate whose message overlaps with his own interests; (2) if their interests are not shared, it is possible that the ones of the voter coincide with the ones of the party's donator. Then, the choice will be again in favor of the political actor who will get transmitted trust from the sponsor; (3) in case of not congruent interests between donator and voter, the donator will use the politician/the party for reaching the voter and thus, influencing his beliefs, positions and behavior.

Gene Grossman and Elhanan Helpman⁴ add to this theory a few other details in their paper "Electoral Competition and Special Interest Politics". What they do is to explore the motives that are guiding interest and lobby groups (in fact all kinds of big business donators) and they find two such motives – the so called by the authors "electoral motive" that really intends to help candidates to win the mandate and the so called "influence motive" that wants to influence politician's policies and decisions. Grossman and Helpman believe that what can be seen more frequently is the realization of the second motive. Consequently, if interest groups see that one of the political parties or candidates has bigger chance to win than another one, they are even more ready to invest in it/him. In this way, what happens is that the platform of the election winner presents to a very high degree the interests of the lobbying group, while

⁴ Gene Grossman and Elhanan Helpman, "Electoral competition and Special Interest Groups," *The Review of Economic Studies*, Vol. 63, No. 2 (April 1996): 265-286.

the one of the underdog is more likely to express better the concerns of the average informed voter, although it will also probably not miss business support.

We can say that it is common knowledge that in elections all political parties present to a higher or lower degree different interests (political, economic, etc. but also the contradictions within particular sectors) and that all of these interests are trying to gain domination over the others. In their competition they usually do not respect any rules because the pledge appears to be very high and they are ready to pay the price, whatever it is, in order to win. And they pay it in the direct sense. Big businessmen and companies pay political actors huge amounts and this, in principle, is not reported to the public and it is surely hidden from the eyes of the Audit Offices. The aim of all these quasi-legal activities is just one – exchange of services.

The financial needs of parties are increasing with every year and the big political actors regularly break in secret the legal ceilings or bans for spendings. They get the sources for their campaigns and everyday activities in the way that was described above, as public subsidies, membership fees and natural person's contributions are never enough.

2. Political Corruption

According to Dobrin Kanev⁵ the state has to treat political parties as an integral part of itself and a tool for the realization of democracy. Thus, it seems natural, that party's expenditures should be seen as necessary for the functioning of the political system. The state must help them using its proper mechanisms, meaning the public subsidies. They have to be realistic for being able to pay a serious part of party's expenditures, otherwise, one will observe the situation that we discussed in the previous section. Political parties, not receiving enough

⁵ Dobrin Kanev, "Party Finances and Political Corruption," in *Anticorruption. A Manual*. Sofia: Coalition 2000 and Center for the Study of Democracy, 2003.

support from the state will have to search for such in the business milieu that is always ready to assist. The problem, according to the author, is in the donator's intentions that provoke, at the end, high dependence of parties from their sponsors – interest groups or particular entrepreneurs.

Peter de Leon⁶ says that what in this situation has sense is not to find a solution to the problem with political corruption, but to clarify what we understand under solution. He chooses to be realistic and says that even partial limitation of the phenomenon would be good enough if we manage to do it. The author accepts the position that corruption cannot be completely stopped or controlled. However, it definitely deserves the attention and efforts of both the state and the society because otherwise, democracy and the real political representation will get damaged.

Donatella della Porta and Alberto Vannucci⁷ add to these reflections the sad inference that all kinds of corruption erode slowly the democratic process before the eyes of the people. They do not think that this is just leading to a legitimacy crisis but to a crisis of democracy as a whole.

In the end, people are treated only as voters and only in election periods political actors try to communicate with them. The linkage between the two is often broken because of the increasing alienation between them and the fact that political parties have become more dependent from the business than from their voters. Fortunately, this is not always the case, but we have to analyze this serious problem for being able to limit its spreading.

⁶ Peter de Leon, "Corruption as a part of the Political System," in *Corruption and Anticorruption*. Sofia: Center for the Study of Democracy, 2003.

⁷ Donatella della Porta and Alberto Vannucci, "The "Perverse Effects" of Political Corruption," in *Corruption and Anticorruption*. Sofia: Center for the Study of Democracy, 2003.

3. Political Communication

All parties that are involved in a country's political life expect the elections with hope because they can win and form a cabinet. The other successful candidates will also have a significant reward – places in the parliament. However, before getting in their offices, politicians have to organize a good and professional election campaign where they have to communicate to the electors their messages and programs. All this happens through campaigns that, as it is common belief, have to be expensive for being effective. In this thesis we will check if, to what degree and for what reasons this popular statement is or is not right. For the moment, what is important is to follow the linkage from the previous section that will lead us to the answer.

Pippa Norris⁸ analyzes in her research “Political Parties and Democracy in Theoretical and Practical Perspectives. Developments and Party Communications” the reason that makes the most of the contemporary election campaigns expensive. The reason that she discusses is that they are based on TV participation and political advertising. Because of their high price, parties have to find financial sources to pay for them. States usually do not contribute enough to party and elections' budget and thus they force politicians to search for other funding channels. These channels are the business and interest groups who, actually, finance the expensive air time.

Norris describes the election campaigns from the last two decades as a shift from “issue-based” to a “personalized” politics. The serious debates on topics that are important for the society are replaced by the vision of a strong mediatic leadership. Another characteristic that she finds is the “more instrumental” electorate that is no more guided by family political

⁸ Pippa Norris, *Political Parties and Democracy in Theoretical and Practical Perspectives. Developments and Party Communications* (Washington: National Democratic Institute for International Affairs, 2005), 11.

traditions, class divisions or religion. People have become more practical and this can be seen in theirs and in the politician's behavior during campaigns. Political marketing is more than ever image-making oriented because it is based, as it was argued, on advertising and on different forms of indirect communication. Both political actors and audience have developed a form of passiveness. Nowadays, campaign managers prescribe more rarely personal meetings with electors, phone calls and public meetings. These methods are still in use but cannot reach the level of spendings on political advertising. In contrast to these observations, the author presents data indicating the usefulness of such strategies and calls them "golden standards".

However, despite that the personal communication appears to be still very effective (if it is given the chance), it is almost completely replaced by highly expensive and mediated channels. Despite the expectations, a luxurious service is not always effective and this has its reasons.

The first reason comes from Stephen Coate, according to whom campaign finance policy can be Pareto-improving. The idea of the author is that it gives chance for both the groups of businessmen and electors to get what they want. Entrepreneurs and lobbyists give generous donations to political parties (in fact an investment) for the public presentation of their interests in order to make them popular and working. Voters, from their part, are given the chance, through the above mentioned expensive advertising campaigns, to get more and better information for the competing political candidates and thus the whole society benefits from the election of good and qualified leaders. Although the principle seems good, it automatically turns ineffective if there are no contribution limits (people start thinking of corruption) and if politicians demonstrate strong desire to hold office. In the cases of Bulgaria

and Hungary that this thesis discusses, we have exactly the situation that was described. In the first country ceilings are valid only during campaign periods (there is complete freedom in the rest of the year) and in the second one – absolutely no limitations. Because of these factors, when electors see the extremely expensive campaigns in comparison to the country standards and the ability of the state to finance parties, as well as the politicians, ready to promise everything, according to Coate and to the practice, voters become cynical and then the money spent – useless.

Coate also finds that contribution bans are very important but only in the cases that were just described. If party representatives do not show such evident taste for power, spendings would be efficient and so bans would be undesirable.

However, when analyzing party and campaign financing, we have to emphasize that we are not including in the debate the possibility of self-funding. In Bulgaria and in Hungary the cases of demonstratively wealthy candidates (as it has almost become a practice in the USA and UK for example, where this is a sign of economic independence from interest groups and so a positive quality) are not much, although there are some exceptions. In these two countries candidates and their parties are highly dependent from the private sector, although in the model of funding typical for the Central-European case this is not so obvious. Because of the typical features of party financing in Bulgaria and Hungary Stephan Coate would advice the application of limitations on contributions because such a measure would decrease the number of policy favors and restore the trust of the society in its political class.

We can say that the problems that one can observe in the models of the two countries that are objects of this analysis mainly come from money. The following subsection will give more details on the existing linkages between money, campaign and electoral success.

4. Money

The first theoretical approach that I will use here is the one of Brad Alexander who is asking the important question “Do funding sources affect electoral outcome?” Yes, they do and here is his explanation.

Alexander assumes that there are “good” and “bad” money in the sense that some financial sources influence the electoral campaign in a positive way, while others can be even harmful. The author bases his results on a research that he has done in the UK on the elections for the House of Commons for the years 1996, 1998, 2000 and 2002. His interest is focused on the out-of-state donations, the PAC donations and the self-financing. He argues that a perfect and even utopist model would include almost none PAC donations, limited self-financing and a lot of donations from ordinary but local voters. In opposition to this construction, his findings show that political success is connected to a big share of self-financing. Indeed, this is not surprising, although it could be also assumed that the number of local voters for each candidate would lead to victory. Here, the logic is the one that was mentioned at the end of the previous subsection – electors want to be sure that the politicians they send in the House are able to pay their own bills and not to search for economic support from suspicious donators.

The theory of Alexander is very appropriate for the comparative analysis that this thesis is making because it gives a working explanation to the problem of campaign inefficiency. Both in Bulgaria and in Hungary political parties spend impressing amounts in election periods but

very frequently this does not lead to the desired result or the significance of the victory is not the one that has been expected. The problem of the two countries, if we use the theory of Alexander, is that they spend a lot and, especially, that they spend these big amounts from sources that lead to loss – donations from legal persons that create economic dependence. Unfortunately, in the two countries considered, it happens very frequently that people become politicians (respectively state officials) for being able to get rich. The demonstrated practices are just the opposite to what can be seen in the Anglo-Saxon world where one has to be already rich in order to demonstrate to the community his potential and abilities to deal with the community's problems.

The last theory that I will present will fill out the findings of Stephan Coate and Brad Alexander. The author is Thomas Stratmann⁹ and he also argues that in case of unclear donations (the term that he uses is “tainted money”) all campaign efforts, including advertising, are useless. He also supports the idea that limitations of the size of contributions are necessary and that in case of reforms in this field, the electoral participation would increase. Stratmann's statements are indeed very close to the ones of Alexander, but the former is not that much focused on the size of donations but in their kind. The author underlines that the ceilings on donations in combination with “clean money” give even equal chances in elections both for incumbent and challenger and in such a situation political advertising can really influence voters.

All the theories that were presented contribute to the better understanding of the Bulgarian and Hungarian models of party and election financing and they give useful directions for a further debate on the topic. These theories are the basis on which was build this thesis and

⁹ Thomas Stratmann, “Tainted Money? Contribution Limits and the Effectiveness of Campaign Spending” (CESifo Working Paper No. 1044, September 2003).

from where it obtains its reasons. The next two chapters will investigate the particularities that exist in the two countries, their explanations and evolutions.

Chapter II

The Model of Direct Funding and the Case of Bulgaria

1. Description of the Model

1.1. Legal Basis

Everywhere politics are seen as something unclear and unfair. The situation in the post-communist countries is even worse – there was an initial political and economic chaos at the beginning of '90s, a badly regulated party legislation and all kinds of confusion in the society. All these things still have their visible traces and talking about political systems, they can be very easily seen in the party laws in Bulgaria and Hungary.

As this chapter is analyzing the model that Bulgaria represents, we have to note that in the country there are only four laws that concern political actors and their funding. These are the Law on Election of President and Vice President of Republic of Bulgaria (1991), the Law on Local Elections (1995), the Parliamentary Election Law (2001) and the Law on Political Parties (2005). These acts are not enough, especially if we know that they are of too general character and that they barely deal with the financial issues of parties. Because of this reason, despite the fact that the last law on political parties is relatively new, there is an increasing need to provide the Bulgarian legislation with more detailed party acts and measures against political abuses that are complying with the new realities of a very fragmented party system, highly dependent on the private sector.

1.2. Legislative Reforms

In Bulgaria, the last law on political parties is from 2005, a fact that supposes a relative contemporaneousness of its norms. However, despite this, one can find many gaps in it but this section will discuss the two main directions of needed urgent change.

The first and the most important issue in the model of Bulgaria is the amount given by the state as public subsidies. We can generalize that the most politicians and politically involved persons expect these subsidies to be increased because such a measure would, at least theoretically, decrease the dependence of political actors on private and thus on suspicious economic sources. This intention has already had its first results but not in terms of law or amendment, but as a decision of the Ministry of Finance. In 2006, the Ministry distributed among political parties around €2 900 000, while the amount for 2007 was the impressive € 9 400 000. The difference seems to be significant but in fact giving such large sums has not become a practice and the amount is still not sufficient to cover the basic needs of parties.

The second reform direction that is widely discussed in the country concerns the necessity to give more control and penal rights to the State Audit Office¹⁰ which, at the moment, can only impose small fines; it cannot initiate its own investigations and has to take for granted with almost no criticism the financial reports received from the political parties.

These reform directions are naturally important and they could influence in a positive way the political process in the country if they are introduced as a legal norm. Nevertheless, the realization of all this would be useless, if there is no debate and social control, no sufficiently

¹⁰ www.bulnao.government.bg (Bulgarian National Audit Office)

active NGO sector and most of all – no or weak internal party code of ethics, provisioning penal measures in case of financial and moral abuses.

1.3. Financial Realities

As it was stated in the introduction of the thesis, the Bulgarian case of funding of political parties through private donations will be called in this paper “direct” because the money received from donors is going directly to the party budget with no mediation. This fact has both positive and negative sides and the aim of this chapter is to provide analysis and to connect them to the campaigns and electoral results.

In Bulgaria, it is a popular statement that political parties do not receive sufficient subsidies from the state and that’s why they have to ask natural and legal persons for their financial support. Indeed, the situation is a bit more complicated. The calculations (Appendix 2) made on public subsidies show that for 2006, the average percentage for the parliamentary represented parties is about 56.2 %, a value that cannot be called too low. They get from fees 17.9 % of their budget and from donations – 25.7 %. However, if in addition to this data we also add the results of a research, made by Transparency International Bulgaria for the EU Parliament election campaign in 2007¹¹, we will understand better political actors’ concern. According to the media monitoring of the campaign, the actually spent money for political advertising is about BGN 7 108 248, while the declared amount before the State Audit Office is BGN 3 022 915 (Appendix 3).

¹¹ Transparency International Bulgaria, *Monitoring of the Campaign on the Election of Bulgarian Representatives in the European Parliament* (Sofia: TIB, 2007).

In such a situation, where the cost for only one part of the spendings is at least double, we can clearly understand why public subsidy appears low and why politicians have to depend on other financial sources. In the country, business activities (except the production of party newspapers, trade with intellectual property, rents from own immobility and the interests on deposit accounts) are forbidden for parties. Therefore, in order to fill the gaps in their budget, political parties can rely only on fees (again insignificant as the number of party members is decreasing with every single year), fundraising activities and donations.

1.4. Main Problem

The main problem of this model obviously seems to be donations but not the anonymous ones (forbidden), the foreign (restricted) or those coming from natural persons (in principal small amounts, unable to cause problems). The serious difficulty comes from the contributions of legal persons and the fact that in Bulgaria there is still no law on lobbyism.

The donations from natural persons are usually higher as an amount in comparison to the ones that come from firms if we believe the official financial reports of political parties. For the European Parliament election campaign the average percentages are 38.7 % (natural) and 33.7 % (legal)¹². Naturally, we have to take into consideration that the organization, the sense and the funding of this kind of elections differ from the ones in a parliamentary or presidential campaign but, despite this fact, the tendency is the same. Usually, the contributions from sympathizers are bigger in number but smaller in amount in comparison to the ones of firms, if we do not count the money given by MPs which can be significant. So, for the moment, we can conclude that the funding from natural persons' donations cannot be

¹² Transparency International Bulgaria, *Monitoring of the Campaign on the Election of Bulgarian Representatives in the European Parliament* (Sofia: TIB, 2007).

really influential on what is going on in the party as well as in its campaign as the contributions are small and big in number. The potential lobbyist factor is dispersed.

At the same time, it is not the case with private companies' donations. For the ordinary people, the guiding logic is their proper financial abilities to donate, whereas for the companies the determining reason is mostly the legal bans and ceilings where and if they exist. In the model of Bulgaria, parties can receive money from private firms and from such where the state share is not more than 5 %. During the calendar year, there are no ceilings, they became active only in campaign periods. The existence of such rule is widely opening the door to unregulated lobbyism, political corruption and dependence that, for the moment, are suspected but not controlled. This suspicion becomes even more obvious with the observed tendency of slow but clear increasing of the size and percentage of donations that parties present to the public every year.

Because of these shadow activities, we can assume that the doubled size of political parties' budget (from the TI data on the EU parliamentary elections) derives namely from legal persons. They are the ones who have the capacity to pay the increasing needs of parties but for doing this, they have the right to expect something in return. Here, I do not mean that this is always the case and that there are no donors guided by pure sympathies or ideologies. Unfortunately, experience shows that despite such feelings, very frequently, in addition to them or in their place, one can also find clear business logic and exchange of services. As a natural supporting phenomenon, in the country there is an extremely low level of transparency concerning political parties' financing. Politicians do not like to discuss it either as their own problem (because they will have to hide the truth), nor as others' problem (because if they say what they know about the funding of other parties they will get the same

or an even more dangerous answer from themselves and their party). From all this, it seems that the problem of shadow financing is common and deep.

There is another possible explanation for the behavior of Bulgarian politicians and it is connected to a probable vicious circle: the social fatigue from the transition, the realized goals, the ideological crisis for parties, the disappointment and the loss of support led to populism and to donations (new kind of support, replacing the social one) from more or less significant financial factors, which, at the end, creates conditions for increasing political corruption. If we also add the high desire of the majority of the political actors to hold office, we can say that the political process is not connected to the stable electoral support the way it was at the beginning of transition. Politics has become a game of demonstrated economic interests and we can find evidence for this from Transparency's 2005 research¹³ where 52.4 % of the respondents (against 2.1 %) say that politicians are highly dependent on their sponsors (Appendix 4).

2. Linkage between Money and Politics

In 2005 Transparency International ordered two sociological researches on the last parliamentary elections in Bulgaria – the first one before them and the second one – immediately after them. It is interesting to see that before the vote 25.3 % (the majority) claim that money does not influence campaigns in principle, while a bit later the most of the people answer that it is hard to say: 47 %. However, what can also be seen from the data of the NGO is that interviewees are usually not very assured about the answer to the question but that after seeing the campaign their opinions are mostly orientated between uncertainty and a positive answer. This situation can have a few possible explanations: lack of transparency on party funding and poor information on spendings, new anti-system party in

¹³ Transparency International Bulgaria, *Transparency Index for the Funding of the Election Campaign 2005* (Sofia: TIB, 2005).

the parliament (ATAKA) which had an unusual campaign with almost no TV spots but they had the strong support of a TV channel where the leader of the party had his own nationalistic broadcast and the cooperation of military and communist groups; exactly because of the TV broadcast, people were saying that ATAKA had the longest campaign ever – this was a hidden political advertising that wasn't registered by anyone as such and that's why it worked.

Indeed, the linkage between money and politics in Bulgaria can be understood very easily if we take into consideration that campaigns are mostly financed by the private sector. This allows politicians to pay for the most expensive approach - the political advertising and to keep thinking that this should also be the most effective one when it is about persuading potential voters.

In this way, we can follow with no difficulties the impact of private (here in the sense of corporate) money on campaigns and strategies. In the case of Bulgaria, we are talking of huge amounts which, only in their advertising part, are double in comparison to what is officially declared. In fact, the size of shadow contributions should probably be even higher but for the moment, this statement is only suggested by some circles, but cannot be proved.

2.1. The Problem of the Problematic Situation

The problem of the problematic situation is that businessmen give money to political parties for receiving particular services in return but the way this exchange happens has some weaknesses, despite the practical lack of control from the part of the state and the society. In this section, I will present two of the main difficulties in this respect and one specific phenomenon that is highly demonstrative for the Bulgarian model of direct political funding.

2.1.1. First Weakness

The first weakness connected to the realities in Bulgaria is that sometimes, in the financial reports of political parties, there can be found donations from firms that, according to the State Audit Office, at the moment of giving the donation were in the procedure of public procurement. According to the Bulgarian legislation, this is not allowed. The appearance of such firms in the registers is very curious and I will give here in brief, the three possible explanations.

Explanation №1: parties did not know that at the moment of giving donation the donor is expecting a state decision for his business activities. This is obviously impossible as at least the person receiving the donation is always very well informed about such things and besides that, the donor is giving his money exactly because he is taking part in a public procurement procedure. He personally informs the accountant and someone from the party elite of his position and intentions (need of political support).

Explanation №2: parties have made the mistake of including these companies in their financial reports. As it was said above, it is impossible to make such a mistake because all the people concerned are informed, they know that this activity is against the law and finally, that it is important. In brief, there is no chance for making a mistake.

Explanation №3: parties have done this consciously because everyone knows what they do, so they have decided to show a small proof of guilt in order to hide the bigger sin. This explanation sounds more reasonable but it still damages the image of Bulgarian political parties. Sometimes, such “discoveries” are not made by the State Audit Office that has almost

no rights and is politically dependent. Sometimes, it is an NGO or another party that finds scandalous information of a party's donors and then a real crisis starts.

The financial and ethical problem that is connecting political parties and public procurements is even more significant. According to the Bulgarian National Strategy for Transparent Government and Measures Against Corruption (2006-2008) public procurements are the sphere with the highest corruptional risk.¹⁴ This situation can be explained by the fact that the most of the public procurements are connected to construction and building. In the last few years these sectors have made up half the value of public procurement contracts. They develop very intensively in Bulgaria (as well as in Hungary) because in a very short period it has to catch up with the EU standards in infrastructure, communications, ecology etc.

At the same time, the characteristics of the sector determine dangerous possibilities for quick and uncontrolled profits which, from its part, increases the readiness of businessmen to give bribes. According to data of the Center for the Study of Democracy, there is a decrease in the bribes in the Bulgarian public administration in opposition to an increase of the ones at the decision-making level (the political one). As a result, the winners in state business competitions are usually known in advance and because of this, many companies stop participating in public procurement procedures. A significant weakness is that the law allows the decision-making level, which is politically controlled,

in case of so-called “emergency situations” to skip the public procurement procedures and to choose the executors. What is dangerous here is that this “emergency” can be artificially created.

¹⁴ Center for the Study of Democracy, *Anticorruption Reforms in Bulgaria. Main Results and Risks*. (Sofia: CSD, 2007).

2.1.1.1.. Specificity of the Model

The model of direct funding of political parties from natural and legal persons has developed with time a specificity that is connected with the nature of the model itself. As political parties do not count a lot on the state for high subsidies and as their major financial source is the private sector, it becomes evident that entrepreneurs would develop more and more requirements towards parties for giving them economic support. Politicians, from their part, in their quality of informal lobbyists, controlling the state, also want their share of the profits they assist for. Sometimes, these political claims are too high, a situation that has stimulated the creation of the so-called “business” or “entrepreneur” parties or coalitions. This phenomenon usually is negligible in size but with increasing influence in local parliaments (mostly at the seaside).

Business parties have always been present more or less during the whole transition in Bulgaria but their significance has changed in the last few years with the accumulation of capital and the gradual legalization of some shadow economic activities. This kind of union groups business leaders who do not want to count any more on politicians for the accomplishment of their goals. What happens is the evasion of political corruption and its replacement with a much more dangerous invention – pure business interests with suspicious reputation directly inserted in politics with no regulation. The latest examples in this respect are the parties “LEADER”, “Bourgaz”, “DELA”, “Roden Krai” (all founded for the local elections in 2007). These types of parties usually campaign only in places where their leaders or sponsors develop their businesses. As such, these political actors cannot be popular with ordinary voters, they frequently try to use personal contacts and vote-buying to increase their local influence and to pass the electoral threshold.

Urgent legal measures are needed for the regulation of this particular problem characterizing the Bulgarian model. What is the most obvious way for dealing with the situation is to shift the dependence of political actors from business to state and to develop in parallel the political culture of citizens. These preconditions will be commented in the next section.

2.1.2. Second Weakness

The second weakness of the relationships between political parties and businessmen is that in order to be able to give back the service, while receiving money from sponsors, parties need to win the elections or at least to get into parliament (local or national). There, they will have the access and the tools to act as unregulated and shadow lobbyists, defending economic interests and groups. Such a position will also give chances for politicians' personal financial prosperity. So, in this situation, the desire to win becomes increasingly high and political actors are ready to spend huge amounts on experts and blockbusting know-hows that will send them to the dreamed public post.

This imperative of winning or at least not losing the elections pushes politicians to invest huge amounts (coming from the same donations that we are discussing here) into expensive and ineffective political advertising because this is the thing the campaign managers recommend them. Clearly, there is a certain logic in this choice, although it does not work, unfortunately. The logic is that because of all the tension on the political scene, the big corruption scandals, the identity crisis and the withdrawal of the voters, politicians definitely suffer from a bad image. That's why, the leading strategy in the Bulgarian elections over the last 10 years has been imagemaking. The massive media advertising and the printing of luxurious posters are seen as the magic pill here, but the problem is that they cannot heal the sickness. What they usually do is to provoke the opposite effect – electors see the “guilty”

politicians who are trying to “clean” themselves with their “unclear” money. No chance to win.

3. Campaigning in the Bulgarian Model

A key characteristic of the Bulgarian model is the demonstratively expensive election campaigns that, indeed, are the result of the concentration of significant financial resources in the hands of political parties. In order to take an active part in every political competition, parties try to attract as much money as possible and, because of the weak controlling institutions, the legal gaps and the ability to break in secret even the insignificant existing rules, they get what they want with minimal problems.

In the country and especially among political experts and campaign managers, there is the very popular belief that the more expensive a campaign is, the bigger the electoral success will be. This idea is not new and it is not Bulgarian, but the way it is understood there is typical of the Balkans.

In Bulgaria, as in every liberal democracy, the spendings on everyday party activities, as well as on election campaigns are increasing and we can say that economically, it is completely normal. The needs are getting more complicated and the services more qualitative. The existing concurrence between agencies and all kinds of experts that politicians use is not enough to keep the prices low.

However, at the same time, the local consultants are learning from their Western colleagues how to make a campaign and thus, they start trying to copy their techniques and strategies. This way of working is obviously good because it allows them to take the best practices and

to apply them in the country. The negative side of the phenomenon is that very often they make mistakes doing direct “copy-paste” of some methods (called by Pippa Norris “shopping model”¹⁵) that just cannot work in the Bulgarian milieu. As an excuse for such experiments, one can usually find two reasons: (1) voters are also in permanent contact with the Western style so they expect such campaigns; (2) electors are harder to reach because of numerous factors such as disappointment and lack of interest and this fact implies the need of constant change of the methods. What we have at the end is a very bad communication between campaign ideologists and society. This statement is proved very well by Transparency International Bulgaria, that in its research for the last parliamentary elections in 2005, has asked the public on what party money should be spent in a campaign. The results appear to be shocking and the reader will soon see why (Appendix 5). According to the majority (49.7 %), meetings with politicians and public discussions are the most wanted. The next things are the posters and all sorts of political materials (10.6 %) and the third – the media participation and political advertising (only 7.1 %).

In parallel to this data, the same organization Transparency has ordered another research two years later – in 2007 – for the elections for the European Parliament in Bulgaria. (We can say that with no doubt, the tendencies that have been demonstrated there are also valid for the rest of the election campaigns in the country.) This time, there was no question but the aim was to discover on what political parties have spent their budget for the campaign, according to their own financial reports before the Audit Office. This is the moment to see the paradox that was mentioned above: 60.87 % of the money was used for political advertising, while only 14.14 % was given for meetings with electors and public debates. Indeed, as these are average percentages, we can even find political parties that based around 90 % of their campaigns on

¹⁵ Pippa Norris, *Political Parties and Democracy in Theoretical and Practical Perspectives. Developments and Party Communications* (Washington: National Democratic Institute for International Affairs, 2005), 11.

political advertising mainly on TV, which is known as the most expensive item of expenditure.

These interesting findings demonstrate that the strategies that political actors adopt towards electors are mostly wrong in their biggest part. What people need are more public meetings with their political representatives, they want to hear and to get explained the new political messages and goals, they want their voice to be heard. In opposition, the political class does not seem to want to start real and serious debates and for its success it simply counts on its financial resources.

3.1. Supporting Cases

From what was introduced above, we have discovered that in Bulgaria, significant financial resources in political parties come from private business and that parties usually trust their imagemakers (not electoral experts) for the design of their campaigns. In this way, the final results are strategies that are sometimes based 90 % on political advertising that, according to the sociological researches, is not effective because of a couple of reasons, the most important among which is that voters simply prefer real meetings with politicians.

In the country, the big funding that political parties receive from their sponsors is usually given for compensating the bad image of politicians, especially in crisis periods. Surprisingly or not, this gives the opposite effect – people see the expensive TV spots, concerts and look of politicians and they know that all this has not been paid with legal money. Some vote, guided by traditions, others prefer to stay at home, but what can be said is that for sure in this way parties cannot maximize their electoral result.

As supporting cases for the hypothesis that excessive amounts of money do not help a lot a political party to reach its potential, I will give here two examples from the Bulgarian model. The first one is from 2005 (the last parliamentary elections) when the Bulgarian Socialist Party (BSP) won. The problem here is that it had the most expensive campaign with foreign singers, local celebrities and excessive media participation. All this influenced in a negative way the typical electorate of the party (mostly people over 50 with middle to low incomes) who expected a more modest and conservative campaign as it should be according to the socialist traditions. The fact that the party won was due to other factors such as the problems of the previous government and the strong voting habits of the left. Now, the party is in the government but it has to share its power with two centrist actors, although it had the potential for much better performance as BSP is the party with the biggest membership support.

The second example that I will give shows clearly the opposite strategy – that a less expensive campaign has high chances to bring electoral victory. The party is called GERB and was founded in 2006. Its ideological orientation is right but its opponents find it a populist mixture of everything. This is the party that will win the next parliamentary elections in 2009 with full majority. The case that concerns the topic of this paper is that in 2007 GERB was the absolute “winner” from the first elections for the European Parliament in Bulgaria. Its electoral strategy was one of the thriftiest because it didn’t include political advertising and was almost invisible, although GERB is currently receiving the highest donations from the private sector. The trick here is that the unofficial leader of the party is the mayor of Sofia, an extremely mediatic person.

In conclusion, what can be generalized from these demonstrative examples is that too much money does not lead to victory in elections. A party can be big and rich but it definitely

should not show evidence of its economic strength. The key to success in the Bulgarian model is the quiet and hidden campaign that can last for years but that certainly brings triumph one day.

4. Theoretical Parallels

The model of direct financing and the Bulgarian case that represents it can be successfully explained by all the theoretical approaches that were presented in the first chapter. However, I will focus the reader's attention here on the theories of interest groups and the communication ones.

According to Grossmann and Helpman's pattern, if business and interest groups know in advance with a high degree of probability who from the competing candidates or political parties will win, lobby groups will start overbidding for getting the chance to gain his/its attention. The more potential has the candidature, the more financial contributions it will get from the private sector. We can also apply here the authors' supposition that these donations will be made because of "influence motives". In Bulgaria, such a situation is highly possible because of the complete lack of legislation on lobbyist activities. Thus, entrepreneurs are able to influence freely political parties' decisions and policies.

In their reflections on party funding, Grossmann and Helpman underline that in such cases, the existing impact can be easily traced through parties' platforms. Indeed, in the Bulgarian model, one can see the realization of the authors' predictions. In the first place, the party GERB that is expected to win next parliamentary elections has received in 2007, according to its financial reports before the state Audit Office, the biggest donations from legal persons in comparison to the rest of parties. We have to emphasize that GERB is still out of the

parliament, because it was created in 2006. Furthermore, the business line in the party can be followed in the platform of the political body as well as in its messages – pro-business and pro-European. Further investigation on the major figures in GERB confirms the rightfulness of the hypothesis of entrepreneurial genesis.

In the same time, as it was described in the previous section, the party has already taken part in the first elections for the European parliament in Bulgaria in 2007. In opposition to what the public expected, the probably richest party did not show any evidence of its financial abilities in its campaign. This was a conscious strategy that made voters believe in its pure intentions, so not to “buy electors”. For this reason the campaign was very successful, it broke the traditional concept of winner’s campaign. The theories of “clean money” would also add to this the popular understanding that expensive campaigns are made of “tainted money”. GERB did not make such campaign and thus it implied an image of a “clear” party.

In the same time, using the theory of Pippa Norris, we are also able to complete the picture of GERB’s electoral strategy. By minimizing its advertising (one can hardly say if the party had any TV spots), it refused to apply indirect communication channels towards its electors. The result, as it was already stated, was amazement and victory.

In opposition to what GERB did, we can immediately give numerous examples coming from the whole ideological spectrum of parties that demonstrate that the theories that are used in the thesis work. In case of serious amounts of money put in a campaign one can frequently find small result of them exactly because of the financial excessiveness but, most of all, because of the origin of money. The already mentioned business parties in Bulgaria also prove this statement although they are a separate phenomenon – they usually stay

imperceptible and act in the local level but indeed, this is their aim. They know that if they show their pecuniary abilities they will be thrown out of the game. Because of these reasons the tools they use are different and they are subject to a separate analysis.

We can conclude that for the Bulgarian case even if a party shows its business donors, it can still remain “clean” but only if it is a new subject in the political arena and because of its modest expenditures in public. The linkage between financial channels and electoral results would be bad, according to the theories, but a party can manage to preserve its pure name by behaving transparently and by consciously keeping the balance in its campaign expenditures. Thus, we can say that the Bulgarian politicians become more and more aware of the logic of the theories that this paper uses and with time they find their ways to evade the bad consequences of the working rule.

Chapter III

The Model of Indirect Funding and the Case of Hungary

1. Description of the Model

1.1. Legal Basis

This chapter will present the model of indirect funding of political parties, meaning indirectly receiving private contributions. The model will be presented in details, the frames for which are stated in the legislation of Hungary.

In Hungary, there are seven laws that concern the activities of political parties – the Law on Operation and Financial Functioning of Political Parties (1989), the Law on the Election of Members of Parliament (1989), the Law on Party Headquarters (1991), the Law C on Electoral Procedure (1997), the Law on Party Foundations (2003), the Law on Lobbyist Activities (2006) as well as the Law on State Assets (2007). They are all of very specific character and they specify the state as the main financial source for political parties (state subsidy forms an average of around 65% (Appendix 6) but in many cases it reaches even 70-80% of the party budget). The aim is to decrease as much as possible politicians' dependence on politicians from the business sector and thus on suspicious donations. It can be stated that in its decisions about political activities, the legislator has been very generous – parties benefit from high economic liberty and the state is respecting their autonomy, sometimes even a bit more than needed. Because some of the major laws have to be amended, for the moment, they are not taking into consideration the new financial and electoral realities and thus they are stimulating some shadow business practices.

1.2. Legislative Reforms

The legislative reforms in Hungary mainly concern the newly prepared Law on Political Parties that is ready but still not passed. As the problems of the model are the unlimited private donations, the insufficient public subsidies (despite the official numbers, parties receive contributions around five times the amount they declare before the Audit Office¹⁶ to meet their needs, according to information of Enyedi¹⁷ and interviews done for this thesis, so the subsidies appear to be low), the size of the expenditures (now for one candidate a party may spend not more than HUF 1 million), the party firms and foundations (very risky, later on they will be analyzed in details), etc. As an answer to these characteristics, the new law makes provisions for more transparency and strict regulations - additional subsidy covering the elections expenditures in case of financial shortage in the party budget, publication of the contributions from natural persons higher than €552, ban on party enterprises and shares in companies, shorter campaign period, maximum spending for political advertising of €12 000 per candidate, actualization of all numbers annually, mandatory public bank accounts for the campaigns, shift from 1 million to 10 millions per candidate, ban on all firm's contributions.

However, there is a problem in all these good intentions, namely the fact that for the amendment to take effect a qualified majority is needed which, for the moment, seems to be impossible because of the nature itself of the Hungarian party model. In the parliament, there are currently four parties and party alliances but indeed, the major actors are two – the governing MSZP (leftist) and the oppositional FIDESZ (rightist). The strong polarization between them is the reason that prevents for the moment any reforms in the party legislation.

¹⁶ www.asz.hu (State Audit Office of Hungary).

¹⁷ Zsolt Enyedi, "Accounting for Organization and Financing. A Contrast of Four Hungarian Parties," *Europe-Asia Studies*, Vol. 58, No. 7 (November 2006): 1101-1117.

1.3. Financial Realities

With the purpose of indicating the seriousness of the situation in Hungary on party finances, I will offer the reader two very brief facts. First two examples from 1994 and 1999 when leaders of FIDESZ and MIEP asked for the full financial accounts of their parties and as a result they both were forced to resign.¹⁸ The second fact is given by Transparency International Hungary, according to which, parties are seen by the public as the most corrupt institutions in the country¹⁹. Not to wonder if we know that according to the same organization the campaign spendings in 2006 unofficially reached HUF 7.3 billion²⁰ in comparison to the legal ceiling of HUF 386 million.

Despite this alarming data, we have to emphasize that the situation in Hungary can be successfully compared with any other country, as there is no perfect model and as problems tend to be very similar everywhere. We can also add to this the eternal fight against the political patronage and the uncontrolled relationships between political parties and donors which find their reason after the winning of elections. As counterpoints to all this, the state disposes with Law on Lobbyism (completely absent in Bulgaria) and one on public procurements that, again by contrast to Bulgaria, does not allow any “emergency” irregularities. However, these normative documents still have their gaps, especially the first one, as according to experts, it reflects not more than 10% of the lobbyist practices. Thus, political parties stay exposed to high corruptional risks, but still again, the polarization of the party system is not allowing full dependence. According to Zsolt Enyedi, one cannot buy a party, but only certain MPs, because Hungarian political parties are ideologically strong –

¹⁸ Zsolt Enyedi, “Party Funding in Hungary” in *Political Finance and Corruption in Eastern Europe: The Transition Period*. Hampshire: Ashgate, 2007.

¹⁹ Transparency International Hungary, *Corruption Risks in Hungary. National Integrity System Country Study, Part One* (Budapest: TIH, 2007).

²⁰ www.kampanyfinanszirozask.hu (Perspective Institute, Freedom House and Transparency International Hungary – Joint Initiative for a More Transparent Campaign Financing System).

they do not follow interests that contradict their beliefs. Instead, parties usually receive their donations from more trusted institutions – their own foundations.

1.4. Main Problem

Party foundations have existed in Hungary since the beginning of transition in the early '90s but in 2003 they got their legal framework with a special act, describing their functioning and funding. The idea in the Hungarian model is to establish powerful institutions like the ones in Germany that help the whole political system with their educational, editorial and cultural activities.²¹ However, this good idea is shaped by the large liberties (mostly economic) that they possess and that gives them a chance in cooperation with parties to evade the law.

The financial sources of party foundations are numerous – significant public subsidies, incomes from their own activities, donations from other foundations that are not subject to the regulative measures that exist for them but most of all, unlimited donations from natural and legal persons. I am underlining the last point because in its special sense one can find the mechanism of real funding in the Hungarian model. I called this model “indirect” because of the meditative role that foundations play there.

In Hungary, political parties have to present yearly in their financial reports only the inland donors' contributions higher than HUF 500 000 and the foreign ones up to HUF 100 000. Despite this, a huge number of the names remain in secret as they pass through foundations. The institutes of Hungarian political parties are obliged to receive donations only from identified persons and through bank accounts but afterwards, they do not have to declare

²¹ Zsolt Enyedi, “Hungary” in *Lobbying, Government Relations and Campaign Finance Worldwide: Navigating the Laws, Regulations and Practices of National Regimes*. NY: Oceana Publications, 2005.

them as parties do. Thus, what actually happens is the transfer of big amounts from foundations to parties, a practice that, indeed, is not breaking the law but only moral principles.

Another application of this economic freedom can be found in election periods when party foundations not only provide political actors with cars, cell phones and equipment for free (in the sense that the costs do not have to be included in the financial reports, as they do not belong to parties themselves) but they also pay the fees of experts and agencies. The share of these spendings can reach 50% of the party budget, an amount that the party saves in fact. Because of these unclear activities, it is impossible for experts to discover the real numbers that are present in the lists of election expenditures. Furthermore, another disadvantage of the model is that all sorts of costs are presented in the reports before the State Audit Office in a too general way, so practically, there is no use of them.

All the above mentioned practices are indications that in the Hungarian model there is an almost complete overlap between political parties and their foundations in terms of activities and functions. One can even describe the situation as one party divided into two parts – the public one and the shadow one that are cooperating for meeting common political and economic goals. This statement is also confirmed by another fact – there is one more “coincidence” – very frequently the party leadership also governs the foundation. This strategy allows them to develop better synchrony and to avoid possible mistakes. It is a clear sign for the outsiders that not only the elite of party and foundation is shared...

The described mechanism has one more final function – bank loans. In 2001, the party SZDSZ was accused that in its 1998 campaign it had exceeded the expenditure ceilings.²² This happened because it took bank loans through its companies and foundations. In the end, SZDSZ was declared not guilty because according to the law this was not a crime. However, talking about crimes, we should mention the case of János Zuschlag, a socialist ex-MP, currently in prison, who misappropriated significant amounts from the Sports and Youth Ministry by pretending to have foundations. In Bulgaria, there have not been prison sentences for political corruption or fraud.

2. Linkage between Money and Politics

Again, making a comparison with Bulgarian case of party funding, there is one more characteristic that, this time, seems to be common. I am talking about the central role that political advertising plays in the life and strategies of political parties in both countries. This is definitely the most expensive issue that connects in a visible way money and politics. However, the Hungarian reality has a particularity that doesn't exist in South Europe.

Here, I mean the party's ability to pay for advertising and the curious incident that happened in Hungary in 2007. Then, one of the major political actors – FIDESZ – made a public debate about the need of a ban on political advertising in election campaigns. The opinion of the party is that this communication method is unnecessarily expensive and that it is contributing to the mass hypocrisy and political populism that have been guiding the campaigns in the last few years. FIDESZ even proposed the idea of organizing a referendum on the issue but the Constitutional court answered that such banning should be an anti-constitutional act, so it quickly rejected the project of the rightist party. At the same time, the other political

²² Zsolt Enyedi, "Party Funding in Hungary" in *Political Finance and Corruption in Eastern Europe: The Transition Period*. Hampshire: Ashgate, 2007.

spectrum – the MSZP opponents of FIDESZ – accuse the oppositional party of the same populism that it is talking about and they claim that this act is guided by the FIDESZ's own incapacity to finance such activities as political advertising. MSZP reminds the public of the big indebtedness of the oppositional party. For us, as outside observers it is hard to estimate the rightfulness of such statements; what we can do for sure is to make the conclusion that whether it is true or not, what is clear here is the linkage between financial resources (business), political parties and campaign strategies. If we assume that there is a reason in the statements of the socialist party, we can easily understand it because it is natural that a party in opposition (in principle) is supposed to benefit from fewer sponsors than a governing one. The logic is that donors do not get a direct advantage when they contribute to a party not disposing of governmental tools but all these statements cannot be easily proved, as the Hungarian model is extremely opaque. The trials to investigate the amounts parties (at least officially) spend on political advertising are determined in advance and lead only to complete failure because of the generality in the parties' financial declarations. As it was mentioned earlier, one cannot really understand what parties spend their finances on - the expenditures are presented in a too unclear way. It is only in the MSZP's data from the parliamentary elections in 2006 where a researcher can find that approximately 45% of the budget had been given for political advertising, a percentage around two times lower than the traditions in Bulgaria, as well as in the Hungarian reality, according to some experts...The declared value of 45% clearly differs from what one can see in the Hungarian campaigns.

2.1. The Problem of the Problematic situation

This time the problem of the problematic situation can be very easily assumed from all that was said till now about the Hungarian model of indirect funding of political parties. The problem itself consists in that exactly the indirectness of the political actors' all sorts of activities makes it extremely difficult to follow and the control the political process. It can be

stated that by contrast with the Bulgarian model where the problems concern the actors involved (businessmen and politicians), in the Hungarian case the negatives that the model produces are mainly for the public. By saying it, I mean mainly the researchers who develop even more suspicions in comparison to the Bulgarian case only because of the “mediated” ways of existence and the high level of economic freedom of the parties in Hungary. In the next subsections I will present briefly some of the major weaknesses and specificities that this situation includes.

2.1.1. First Weakness

The first weakness that I will comment here is the weak legal regulations or we can even say, the lack of such, on the so-called “in kind donations”. Under this term one can find all sorts of contributions both from natural and legal persons that do not take the form of direct payments to the party. As examples we can give cases when owners of enterprises provide free of charge printing of campaign materials free of charge, media bosses give free air-time to political parties or sympathizers work as volunteers in the headquarters of political parties. In almost every country, Hungary included, these practices are problematic because of two major difficulties that their nature itself provokes. In the first place, it is hard to estimate their cost if one intends to report it and second, in the most cases people or companies prefer to make such contributions exactly because there is no way for them to be reported. In the Hungarian model, this usual practice is just an additional characteristic of the opaque model.

In opposition to the Bulgarian model (with all its negatives taken into consideration) where political parties have started to include such in kind donations in their reports (the credibility of the numbers presented is another topic of discussion), in Hungary there are no efforts from the political actors in this respect. Indeed, they are completely innocent as they are complying with the existing legal framework that does not expect such detailed information. So, what is

needed is a reform in the field. The good thing is that the new law is ready and waiting for politicians' decision in parliament.

2.1.2. Second Weakness

The second weakness of the model is closely connected to the first one and the problem of financial reporting of incomes and expenditures. In Hungary, because of the structure of the financial reports that parties prepare for the State Audit Office annually and following campaigns, one cannot be sure what is qualified as campaign expenditure and if the numbers presented are for the whole expenditure on certain items or they show only some part of it (for example the one that is spent from the public subsidy or the one from the party's own revenues). Another possibility is to not find declared the money that particular candidates have given from their own pocket. So, the problem is that the official structure of reports is rather confusing and too general. To give another example, in the documents, there are sections for the "natural" and "not natural" spendings of political parties, as well as some amounts given for "other" activities. It is obviously impossible for anyone, except the persons charged with party accounting to know what indeed is meant when they have put the numbers in the categories.

Because of all said above, the model definitely needs more transparency and disclosure rules to be introduced. Such measures will open the system for the public and will establish a higher degree of trust between politicians and their electors. In fact, the former, namely politicians have to be the ones to insist on the establishment of stricter regulations as they will benefit from it. However, for the moment, the situation is still complicated, especially if we add the next characteristic of the model.

2.1.3. Specificity of the Model

In Hungary, there is another specificity that distinguishes the country from Bulgaria. In Hungary, political parties are allowed to develop their proper business activities, to set firms, contributing to their budget.

Many of the Hungarian parties have had, at least, at some moment, benefited from this economic right, the two biggest parties included. Both MSZP and FIDESZ have their business experience with companies, established in the early '90s. The firm of FIDESZ is called "Fico Kft." and its specter of activities is huge – around sixteen different business sectors included – from cars to advertising. The MSZP's company is "Köz-Tér-Ház Kft." and its main task is maintaining the party's headquarters.

Creating their own businesses has both positive and negative sides for political parties. In the first category we can include some legal advantages, provided by the Law on Political Parties. According to it, party firms benefit from tax exemptions and in opposition to political parties themselves, their companies have the right to possess corporate stocks (parties are allowed to own only state securities and bonds).

Despite these economic liberties, party firms do not offer almost any other advantages. Indeed, they can even be dangerous for political actors as every small problem would directly reflect on the party and the trust of its electors in it. Because of this fact, as well as because of the presence of other much better and easy financial channels, such as foundations, Hungarian parties are not very active in establishing companies. Currently, only a few of them have some kind of business and its activities are not significant.

3. Campaigning in the Hungarian Model

Elections in the Hungarian model were described by one of the interviewees for this thesis as “campaigning in an Italian style in the heart of an Anglo-Saxon model”. The Italian style comes from the expensive election campaigns that the main political actors are involved in, as well as from the high level of emotions and psychological methods. Many Hungarian politicians share the belief that there is a lot of populism in the speeches but, indeed, this is not a local specificity. The second part of the statement about the Anglo-Saxon model was concerning, of course, the strong ideological and practical polarization in the relationships between the two major political parties – MSZP and FIDESZ, representing the socialist and the conservative doctrines.

In election times in Hungary, one can see the signs of significant economic presence behind parties. In such periods, they spend 500% more on advertising than they usually do.²³ Only one forint out ten is seen as guaranteed legal income and the amounts spent on campaigns are doubled every four years (data of Transparency International Hungary, 2008).

If we compare these political realities with the legal requirement of spending no more than HUF 1 million on a candidate and – HUF 386 million maximum for the whole list, we can see the reason why political actors are forced to find shadow financial sources, to hide their real values and to search for mechanisms for legally breaking the rules. Such an example came in 2001 when SZDSZ was accused of illegal funding of its 1998 campaign. The problem was that it used some linked companies to take bank loans for its campaign needs.

²³ www.kampanyfinanszirozask.hu (Perspective Institute, Freedom House and Transparency International Hungary – Joint Initiative for a More Transparent Campaign Financing System).

Despite the abuse, there were no bad consequences because firms have the right to take such loans independently from the party.

Other sources of worries for the electoral experts come from the commercial media which frequently provide discounts to some political parties and in this way the principles of fair-play and of equality before electors are not respected. For the moment, it is still impossible to monitor this process and to give exact data on it but what happens is not always subsequent electoral victory for the benefiting party. Hungarian voters may not know the precise numbers of amounts that are circulating in a campaign but they detect very precisely if there is something irregular. People's reactions are never late.

3.1. Supporting Cases

The hypothesis that a lot of money (big quantities are always suspicious) put into a campaign usually does not help a political party to win has evidence in the Hungarian model as well. For the support of this statement I will provide two cases relying on the experience of the two major political parties – FIDESZ and MSZP.

The rightist FIDESZ had problems in the election campaign in 1994 when it invested a lot of money into persuading the voters of its program. However, what was unsaid was that for doing this, the party had two main financial sources – first, it sold its state-distributed headquarters at a high price and second, it was supposed to have illegal incomes from privatization. Around 1990 the party had about 7% trust level, then in 1992-1993 it reached the significant 40% but exactly because of the above-mentioned funding sources and the expensive campaign it lost drastically its electoral support (only 7% on the elections in 1994).

The other demonstrative case for inefficient money spending in a campaign is connected to the currently governing socialist party. In 2006 in Hungary there were two elections: parliamentary and then local. After the victory of the MSZP on the former, a huge scandal about the prime minister's false political promises developed. Despite the demonstrations, the cabinet did not resign. However, these events provoked the MSZP to organize a massive campaign, explaining governmental policies, goals and strategies. The aim, according to some leftist politicians involved was "not to lose too badly". It lost badly in the end, despite the fantastic amounts spent on political advertising and the luxurious position papers it distributed because what they did was to make Hungarians even angrier.

These cases of electoral practice have to be analyzed separately from the whole phenomenon of the Hungarian political and party system. As it has been discussed many times earlier, one of the major explanations of the model's nature is its strong political polarization. Because of it, on elections one can observe high electoral participation usually reaching 70%. This specificity should be considered when analyzing elections and campaign success because it stays as an almost constant value that is ideologically determined. It is not necessarily connected to good campaigns but it stimulates parties to be more active and to search for ways to attract more voters from the big number of potential ones. One of the methods is definitely making significant investments – a strategy that works against the interests of the discredited ones.

4. Theoretical Parallels

For the Hungarian model of indirect funding of political actors and for the cases that were presented in the previous section of the analysis, we can apply successfully the theories of the so-called, by Thomas Stratmann, "tainted money".

In both cases of FIDESZ and MSZP, we can argue that exactly the “unclear” money influenced badly the electoral campaigns of these parties. In the first example people supposed that these were “corrupt money”, whereas in the second can one – the liar’s money.

The ineffective financial control and the lack of contribution limits were just an addition to politicians’ strong desire to hold (and to keep) office. This is a very categorical manifestation of the principle of Coates who argues that Pareto-improvement is only possible in the presence of legal ceilings on the campaign spendings, as well as of more modest political ambitions. It can be stated that the election results of the political parties, according to theories, would be higher if MSZP and FIDESZ would show better personal communication skills, instead of replacing them with expensive campaigns. These campaigns gave even more reasons to people to be suspicious about the origins of the money spent. Probably, despite the hard situation that was in, the socialist party could manage better on the local elections in 2006 (although victory would still not be possible because the scandal was too serious) if it abstained from its luxurious campaign materials. The financial sources shaped even more the electoral result.

In addition to this analysis on the role of money in the case of difficult circumstances, we have to underline that in situations like the one of the Hungarian MSZP, excessive financial spendings in a campaign, aiming to convince voters in the party’s innocence is probably the worst possible electoral strategy. It should be clear for campaign managers that all money, connected to negative feelings in the electors’ minds automatically lead to failure and they diminish the electoral result for the party.

The theories of political corruption emphasize the importance of just and pure understanding between people and their political representatives. They underline that in case of damaged image of political actors because of their illegal and corrupt behavior, this automatically leads to democracy crisis because voters understand that they are not the ones who, actually, are leading the political process. However, Hungarian politicians, like their Bulgarian colleagues, have one way to get away without the possible bad consequences. This small secret path towards salvation is hidden in the Hungarian political model itself and in its polarization that was discussed above. Because of it, despite a possible high level of scandals (or maybe because of it) parties are still able to reach high levels of voter participation in elections, although this is not equal to victory for them.

Finally, it can be argued that the Hungarian model of party and election funding, although having some particular mechanisms to evade bad consequences, proves the rightfulness of the theories used by this paper. The strategies that preserve the political class strengthen the rule that big financial investments in a campaign are mostly harmful for political parties' results.

Conclusion

This master thesis has investigated in depth the models of party and election financing in two close countries – Bulgaria and Hungary. It has compared their structures in terms of legal basis, institutions and practices in order to achieve a wider understanding of how money influences election results.

The two countries were initially perceived as representing two opposing patterns with regard to the formation of party budget – weak state participation (Bulgaria) and significant state contributions (Hungary). However, the research that I made on the topic demonstrated in a categorical way that the just described legal norms do not function in real political life. The two models show similarity in the sense of common significant share of incomes coming from the business sector. We have to emphasize that these observations have become common knowledge to Bulgarian and Hungarian citizens, as well as to political researchers. Despite the obviousness of the situation, political actors keep claiming that they mainly rely on state financial support. NGO's monitoring efforts on campaign spending prove just the opposite – parties spend huge amounts and all this is happening in secret, breaking the ceilings and bans. Because legal financial sources such as public subsidies, membership fees and natural persons' donations have a very limited size and effect, political parties have to search for the support of businessmen and interest groups, thus ready to initiate a dangerous exchange of services.

The model of direct funding from legal persons that is developed in Bulgaria has showed that these relationships can appear as a simple hidden part of the officially allowed by the law contributions, whereas the Hungarian model of indirect financing has demonstrated how this can be achieved through the mediation of powerful political foundations. We can say that in

both cases the outcome appears to be the same – parties get the amounts they need for the satisfaction of their electoral and everyday activities – without formally breaking the law. This strange situation is sustained by the lack of necessary reforms in the field of party legislation in Bulgaria and Hungary, as well as by the practical powerlessness of the two countries' national Audit Offices. All these preconditions are in fact threatening the democratic process as a whole because citizens feel their own inequality to influence politics in comparison to the big strength of business groups. In the end, in case of no reaction from the state, such societies start suffering from lack of political representation and a legitimacy crisis.

The analysis in this thesis has proved that under the circumstances of alienation between the political class and the people, election campaigns do not function in the way they usually do. No matter what methods campaign managers adopt, if the trust is lost, parties will never get an electoral result, reaching their maximum. Political advertising, as the currently most used and especially expensive campaign strategy, if applied in case of mistrust does not have any chance either.

Despite the obvious difficulties in Bulgaria and in Hungary, we can clearly argue that they are not the exception to the rule people do not like politicians in any country. Furthermore, in addition to this generality, we can add that these two countries have something that makes their case slightly more specific and this is their transitional trauma. After the communist period, both in Bulgaria and in Hungary, voters were very politically active and enthusiastic because they were waiting for their EU dream to finally happen. When this aim was achieved, they felt in just one moment the burden of all the sacrifices they did during the years and they remembered their political disappointments. The level of trust and its

protection in the so-called “new democracies” are much more sensitive to fraud and mistreatment. There, one can hear statements that the people has already got used to living with politicians’ financial maneuvers but in fact such a situation is not possible. Humankind is created moral and independently from his life experience he never loses completely his impetus towards justice.

In the end of this research, I would like to appeal for more understanding. This understanding should be rebuilt between the state and political parties which deserve to be respected as an integral part of the democratic process in every country. Such relations would include a normal and reasonable financial support from the part of the state given to parties, in fact, given to society. Naturally, there are norms (Appendix 7) that have to be organized in order to establish and strengthen the framework of these political institutions. However, everyone deserves to be given the chance to respect the law.

Appendices

Appendix 1: Party's economic freedom, according to the existing legislation

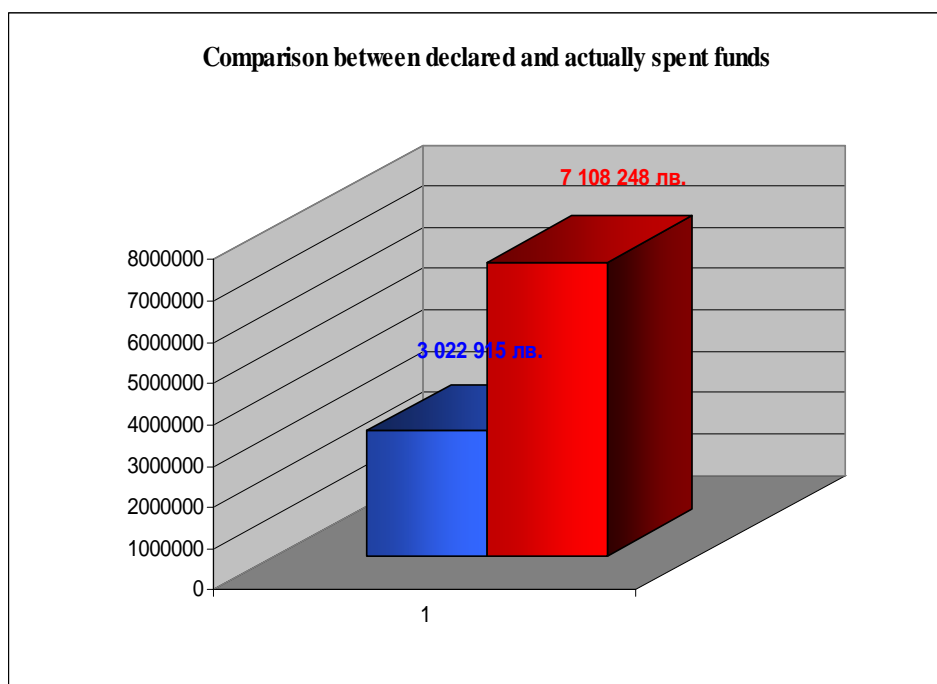
Country	Business activities	Foundations	Tax exemptions	Anonymous donations	Donations from NGOs	Donations from foreign citizens	Donations from state enterprises
Bulgaria	No	Yes	No	No	No/Yes	Yes	Yes/No
Hungary	Yes	Yes	Yes	No/Yes	Yes	Yes	No

Appendix 2: Income Structure of the Main Bulgarian Parties, 2006 (%)

Party	Fees	State	Donations
ATAKA	20,7	61,2	18,1
BZNS	20,2	61,8	18
BSP	20,5	39,6	39,9
DPS	30,3	39,3	30,4
DSB	11,9	76,5	11,6
NDSV	7,1	78,5	14,4
SDS	15,2	36,9	47,9
Average	17,9	56,2	25,7

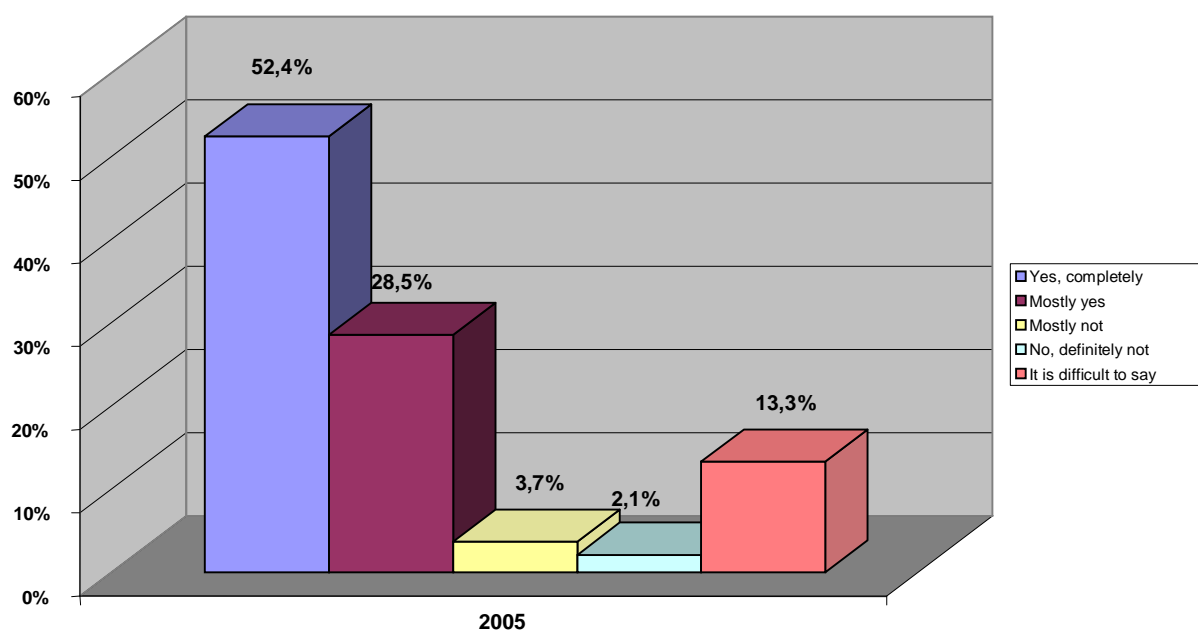
(Data: according to Bulgarian Audit Office's reports, 2007)

Appendix 3: EU Parliament Election Campaign, Bulgaria 2007



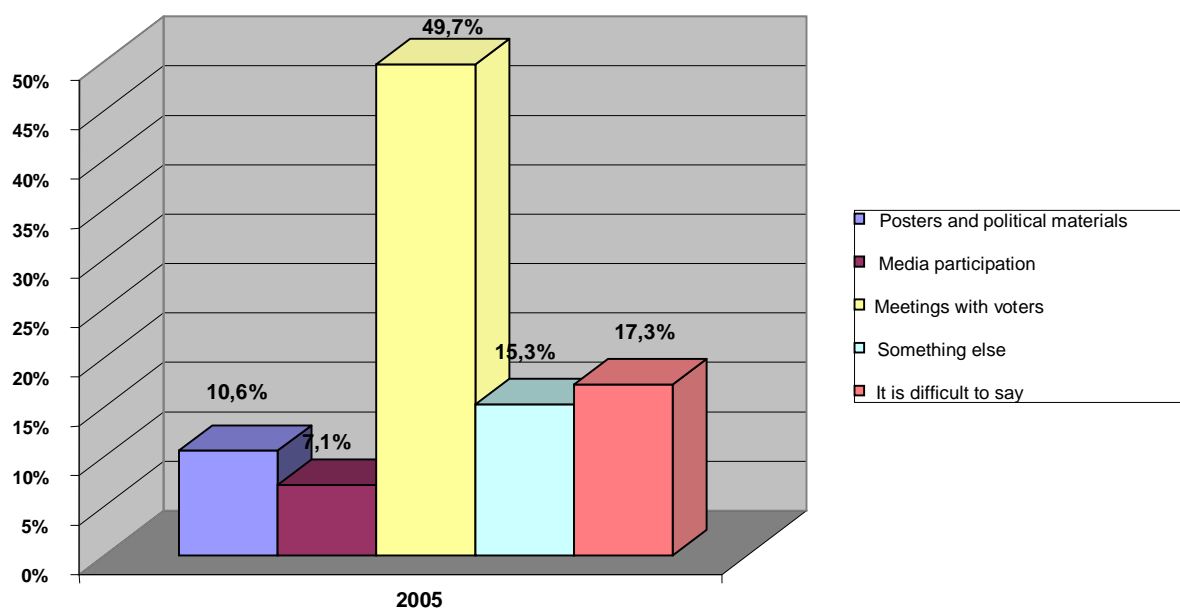
(Data : Transparency International Bulgaria)

Appendix 4: Are politicians dependent from their sponsors?



(Data: Transparency International Bulgaria, 2005)

Appendix 5: For what, in your opinion, should be spent the party's money in a campaign?



(Data: Transparency International, 2005)

Appendix 6: Income Structure of the Main Hungarian Parties, 2005 (%)

Party	Fees	State	Donations	Donations from institutions, companies	Donations from individuals	Large donations	Foreign donations	Others
MSZP	3,9	70	21,3	0,9	20,3	2,9	0	4,8
FIDESZ	5,6	44,6	6,5	0,6	5,8	1,2	0	43,4
SZDSZ	6,8	49,2	29,3	21,8	11,9	20,2	20,2	14,7
MDF	1,5	93	3,2	0,8	2,7	0,2	0,2	2,4
Average	4,45	64,2	15	6	10,1	6,1	5,1	16,3

(Data: Zsolt Enyedi, 2006)

Appendix 7: Reform Approaches to Control Money in Politics²⁴

Approach	Implementation	Expected Outcome	Potential Risks
1. Contribution Limits	Legal cap on contributions	Less funding	More disguised income
2. Contribution Bans	Law excluding certain contributors	No illegal contributions	New organizations or “front persons/fake names” recruited to circumvent bans
3. Spending Limits	Legal cap on spending	Less expensive campaigns	Disguised over-spending
4. Campaign Time Limits	Legal cap on campaign period	Less money required	Underground and “off-season” campaigns
5. Public Disclosure	Law requiring timely financial reporting	Honest reporting and public accountability	Dishonest reporting and untimely information
6. Public Financing	Various	Less corruption and lower election costs	Little effect on private fundraising or reliance on large donors
a) Money to parties	Disbursement based on percentage of votes or seats won in last election	Curtailed private funding	Continued pursuit of private funding
b) Money to candidates	Disbursement based on percentage of votes or seats won in last election	Curtailed private funding	Continued pursuit of private funding
c) Tax incentives	Taxpayer deductions and credits	More smaller donors	Little public interest
d) Free or discounted broadcast media	Government provision or low-cost private provision	Equal air time	Persistent incumbent advantage
e) Other subsidies	In-kind products and services	Less expensive campaigns	Persistent incumbent advantage

²⁴ Data from “Money in Politics Handbook: A Guide to Increasing Transparency In Emerging Democracies”, Washington, 2003, USAID

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