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## State funding of Czech political parties: The signs of a cartel?<sup>1</sup>

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Keywords: party funding, state funding, public funding, Czech Republic, parliamentary parties, non-parliamentary parties

The paper analyses the system of public funding of political parties in the Czech Republic in the framework of the cartelization theory. After a theoretical introduction, the paper presents an overview of the laws governing political party funding in a wider socioeconomic context. The second part of the paper contains empirical analyses of party funding, focusing primarily on the role that state funding plays in the overall political party income structure. Specific attention is paid to the differences between parliamentary and non-parliamentary political parties. The overall findings suggest that the system of state financing in the Czech Republic strengthens the status quo, rather than promoting higher inclusivity of the party system. State funding is the most important source of income for most parties included in the analysis. It is also disproportionately higher for parliamentary than for non-parliamentary parties and in the period under observation state funding did not help – with only one possible exception – non-parliamentary parties enter the parliament.

### Die Staatsfinanzierung der politischen Parteien in der Tschechischen Republik: Merkmale des Kartells?

Schlüsselwörter: Finanzierung der politischen Parteien, Staatsfinanzierung, Tschechische Republik, parlamentarische Parteien, nicht-parlamentarische Parteien

Dieser Artikel analysiert die Staatsfinanzierung der politischen Parteien in der Tschechischen Republik im Kontext der Theorie der Kartellisierung. Nach einer theoretischen Einführung wird ein Überblick über die rechtlichen Rahmenbedingungen der Parteienfinanzierung gegeben, unter besonderer Berücksichtigung des sozioökonomischen Kontextes. Der anschließende empirische Teil fokussiert auf die Rolle, die die Staatsfinanzierung in der Gesamteinnahmenstruktur der politischen Parteien spielt. Besondere Aufmerksamkeit wird den Unterschieden zwischen parlamentarischen und nicht-parlamentarischen Parteien gewidmet. Da die staatliche Parteienfinanzierung die parlamentarischen Parteien favorisiert, stärkt dieses System eher den Status quo und fördert weniger die Inklusivität des Parteiensystems in der Tschechischen Republik. Die Staatsfinanzierung stellt die wichtigste Einnahmequelle der meisten in der Analyse umfassten Parteien dar.

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## 1. Introduction

The funding of political parties plays a significant role in their functioning. While there are undoubtedly many other, and more important, factors influencing the development of the party system, we can reasonably suppose that public funding can influence the number of new parties gaining access to the parliament. This is especially true in post-communist countries such as the Czech Republic, where the establishment of a state funding framework coincided with the emergence of the modern party system. It is hardly possible to establish a direct causal relationship between the stability of a party system and the rules of state funding of political parties, due to the number of other, more important variables in play, such as the character of party elites, party strategies, or salience of political issues in electoral campaign etc. This article employs the concept of party system cartelization, which assumes, among other things, that state funding assists parliamentary/established parties in limiting the access their competitors have to the parliamentary scene. It must be emphasized, however, that our aim here is not to evaluate the degree to which the Czech party system as a whole functions as a cartel, because the character of state funding is only one among multiple manifestations of cartelization (see e.g. Katz/Mair 1995; Krašovec/Haughton 2011; van Biezen 2004).

## 2. Public Funding and Cartelization of Party Politics

Majority of authors views state funding of political parties as a potential tool to prevent or limit new political parties from gaining access to power. Richard Katz and Peter Mair's (1995) thesis on the origin of cartel parties is the best-known to adopt this view, although it, too, has been criticized (see Kitschelt 2000; Koole 1996). What is important in line with the cartelization argument, is that the creation of such a cartel does not necessarily limit the opposition parties, which may be part of the "political class"; the cartel protects its members against outsiders in general, that is parties that are not a part of it (so not only non-parliamentary parties). Thus, one can speak of cartelization if the public funding of political parties favours a certain group of political parties (typically, parliamentary parties over non-parliamentary ones).

Susan Scarrow compared party system dynamics in Europe and examined public funding of political parties therein. Her conclusion was that the introduction or alteration of public funding has no influence on either the number of parties or their electoral gains (Scarrow 2006). On the contrary, Aleks Szczerbiak indicated that the funding of political parties in Poland privileges large parliamentary parties; he referred to an incipient party cartel, although he ultimately relativised his conclusion partially as a response to the instability of Polish party politics (Szczerbiak 2006). Similarly, Alenka Krašovec and Tim Haughton analysed party funding in Slovenia and parties' response to it; stating that political parties in the country are "heavily approaching the cartel party model", because most of their income consists of state subsidy and they have a tendency to adopt legislation disadvantageous to non-parliamentary parties (Krašovec/Haughton 2011, 207). In her evaluation of party funding in Portugal and Spain, Ingrid van Biezen mentioned an emerging tendency towards party cartels; she indicated the dependency of Spanish and Portuguese parties on state funding, the privileging of large political parties in particular and their consequent unwillingness to reform the system of state political party funding towards greater openness (van Biezen 2000). In contrast, in his case study of Estonia, Allan Sikk merely men-

tioned “strong ‘cartelistic institutions’”, including the public funding of political parties favouring parliamentary parties (Sikk 2003).

To sum up, cartelization involves i.a. strong financial ties between political parties and the state (with public funding as a key source of income for the parties). A model of funding that privileges parliamentary parties also characterizes cartelization. In interpreting the evolution of public funding of political parties in the Czech Republic and in the subsequent empirical analysis of data obtained from the annual reports compiled by political parties, we will focus mainly on these two aspects and seek to answer the following questions: How did the state funding of political parties evolve in the Czech Republic? How is party funding structured in the Czech Republic and how does funding differ between parliamentary and non-parliamentary parties? Does the state funding of political parties in the Czech Republic exhibit signs of cartelization? Does the system of state funding of political parties support the status quo or does it help make political competition more inclusive?

The analysis will be carried out both on legislation dealing with public funding of political parties and on data obtained from the annual reports of all political parties, which at least once during the period in question, which reached or overcame the minimal threshold of 1.5% of the vote in the elections to the Chamber of Deputies and thus became eligible for state funding related to this type of election. The data regarding state funding was further cross-checked with official information from the Ministry of Finance (The Ministry of Finance of the CR 2012). A total of 17 political parties or movements qualified for analysis, which subsequently included data from 104 annual reports (all available reports of the parties in the whole period).<sup>2</sup> The research focuses on the period between 1996 (the first parliamentary election since the independence of the Czech Republic) and 2010.

### **3. Public funding of political parties in the Czech Republic**

In keeping with the Political Party Act, the income received by Czech political parties may be broken down into several basic categories: state funding, membership fees, gifts and legacies, loans and other items. The subsidy for election costs was introduced into law even before the first free elections took place in 1990 and then valorised before the 1992 elections. At the same time, a so-called permanent subsidy was introduced and made available to political parties which had qualified for reimbursement of their election expenses. Regulations governing state funding given to political parties underwent a fundamental transformation in 1994. Now only political parties receiving at least 3% of the votes in elections to the Chamber of Deputies were to be eligible for the permanent subsidy. In addition, a new type of direct state funding to political parties was introduced, the per-seat subsidy.

The comprehensive regulation of state funding provided to political parties was completed with adoption of the Election Act in 1995, increasing the reimbursement subsidy and setting the eligibility threshold at 3% of the vote. The new legislation disadvantaged smaller political parties in three ways: increasing the eligibility limit to 3% of the vote, and substantially increasing the subsidy amount, thus expanding the financial advantage enjoyed by larger, primarily parliamentary parties. Another advantage for the parliamentary parties came with the adoption of an obligation for campaigning political parties to pay a deposit of CZK 200,000 per electoral district. For campaigns being run in all eight electoral districts, this came to CZK 1.6 million. The deposit would be reimbursed only if the party in question managed to gain at least 5% of the vote.

The original wording of these regulations remained in effect until 1999, when the Constitutional Court struck down the 3% eligibility limit for receiving election cost subsidies. In its ruling, the Constitutional Court emphasized the need to assess the disputed provision within the wider context of all provisions setting limits on unfettered competition between political parties. (Constitutional Court of the Czech Republic 1999).

The most discussed changes were adopted in the period of the so-called opposition agreement (Roberts 2003). This agreement between the two largest political parties stated i.a. a goal of adopting changes in the law which would “reinforce the significance of the results of political party competition” (ČSSD/ODS 1998). The eligibility threshold for election cost subsidies was dropped to 2% of the vote. However, the amount provided per vote was decreased significantly.

On the one hand, decreasing election cost subsidies does also impact the amount received by parliamentary parties, on the other hand these were substantially compensated for the loss by a subsequent amendment to the Political Party Act which, among other things, doubled the per-seat subsidy for deputies and senators. Thus, the effect of the party funding reform was significantly altered by the change of the electoral system; this substantially increased the majority effect of the existing proportional electoral system, by changing the electoral formula and the magnitude of the electoral districts (see Table 1).

Therefore, an increase in the per-seat subsidy strongly favoured the large political parties (at the time of adoption, these were ČSSD and ODS). The amount for the permanent operational subsidy remained unchanged but, under the new law, only those political parties gaining representation in the Chamber of Deputies were eligible to receive it. As Jan Outlý (2003) notes, receipt of the permanent subsidy was not conditioned upon exceeding the minimum threshold for election (5% of votes), but upon obtaining a parliamentary seat. This becomes even more important when examining electoral system reform more closely. Once the new Election Act was adopted, the electoral threshold would reach approximately 13% (!) of votes (Lebeda 2004).

In sum, the new election system and the new amendment to the permanent operational subsidy created a clear financial chasm between large and small political parties, due to the seat distribution in election system which was highly disproportionate. A model comparing political party funding before and after the reform planned by the parties of the “Opposition Agreement” shows several properties of the proposed system (see Table 2).<sup>3</sup> The reform of public funding of

**Table 1: Comparison of the old and the new electoral system**

	<b>Before Opposition Agreement</b>	<b>Opposition Agreement Reform</b>
<b>Type</b>	PR	PR
<b>Number of deputies</b>	200	200
<b>Electoral formula</b>	Hagenbach-Bischoff	Modified d’Hondt (1.42; 2; 3 ...)
<b>Number of electoral districts</b>	8	35
<b>Magnitude of electoral districts</b>	13–40*	4-8
<b>Average magnitude of electoral districts</b>	25	5,7
<b>Threshold</b>	5% (7%, 9%, 11% for coalitions)	5% (10%, 15%, 20% for coalitions)

Source: authors

\* Dependent on electoral turnout

Table 2: Comparison of public party funding models before the Opposition Agreement (O.A.) and after the Opposition Agreement Reform (the reform was subsequently annulled)

		Prior O.A.	O.A. Reform	Difference	Prior O.A.	O.A. Reform	Difference
		1996			1998		
Parl. parties	Share of vote (%)	88.4			88.7		
	Total (CZK million)	1004	1059	55	976	1058	82
	Share of total amount (%)	97.2	99.5	2.3	93.7	98.8	5.1
Non-parl. parties	Share of vote (%)	11.6			11.3		
	Total ( CZK million)	29	6	-23	65	12.5	-52.5
	Share of total amount (%)	2.8	0.5	-2.3	6.3	1.2	-5.1
Parties of the O.A.	Share of vote (%)	56.1			60.1		
	Total ( CZK million)	604	890	286	637	904	267
	Share of total amount (%)	58.4	83.6	25.2	61.1	84.3	23.2
		2002			2006		
		Prior O.A.	O.A. Reform	Difference	Prior O.A.	O.A. Reform	Difference
Parl. parties	Share of vote (%)	87.5			94		
	Total (CZK million)	855	1012	157	953	1030	77
	Share of total amount (%)	100	99.3	-0.7	100	99.7	-0.3
Non-parl. parties	Share of vote (%)	12.5			6		
	Total (CZK million)	0	7	7	0	3	3
	Share of total amount (%)	0	0.7	0.7	0	0.3	0.3
Parties of the O.A.	Share of vote (%)	54.7			67.7		
	Total (CZK million)	531	706	175	657	913	256
	Share of total amount (%)	62	69.8	7.8	69.1	88.2	19.1
		2010					
		Prior O.A.	O.A. Reform	Difference			
Parl. parties	Share of vote (%)	81					
	Total (CZK million)	882	1027	145			
	Share of total amount (%)	90	95	5			
Non-parl. parties	Share of vote (%)	19					
	Total (CZK million)	97	56	-41			
	Share of total amount (%)	10	5	-5			
Parties of the O.A.	Share of vote (%)	42					
	Total (CZK million)	451	642	191			
	Share of total amount (%)	46.1	59.3	13.2			

Source: authors, based on data from volby.cz, Čaloud (2006), Lebeda (2000), Šedo (2010)

political parties would slightly strengthen the position of the smaller non-parliamentary parties (in fact of new parties only), while older and relatively successful parties (i.e. those which polled more than 3% of the vote but failed to win seats) would be penalised. In the model calculation, these would have included SPR-RSČ and DŽJ in 1998, ODA in 1996 and SZ in 2006. According to this model, the final two parties mentioned would not be eligible for a permanent subsidy, even if they managed to cross the electoral threshold. The proposed reform would therefore substantially improve the position of large parliamentary political parties, and, conversely, massively weaken the position of medium-sized, and especially of small parliamentary parties. The adopted electoral system reforms and the new rules of party funding would not result in a cartel in the original sense as proposed by Katz and Mair; it would, however, create a strongly disproportionate draw on public party funding by the two largest parties. Naturally, the real functioning of this funding system would depend on actual electoral results, with the relative sizes of political parties and the territorial concentration of their electoral support being crucial factors; regardless, the data provided here unambiguously shows the aim and possible consequences of the proposed reform.

In late June 2000, Václav Havel, the president at that time, first vetoed the amendment of the Election Act and two weeks later made use of his suspensive veto rights to kill the amendment to the Political Party Act (Chrastilová/Mikeš 2003, 485). After his vetoes were overridden by the Chamber of Deputies, the president addressed two complaints concerning both norms to the Constitutional Court. The Constitutional Court nullified the disputed provisions in the acts (including almost all substantive variables in the election system for the Chamber of Deputies) (Constitutional Court of the Czech Republic 2001).

The opinion of the Constitutional Court resulted in the necessity for new legislation. The government amendment to the Election Act adopted in 2000/2001 lowered the threshold for payment of subsidies for election costs to 1.5% and simultaneously increased the amount of the subsidy to CZK 100. Only one day after the ruling by the Constitutional Court, a rider to the State Bond Program Act proposed an amendment to the Political Party Act doubling the permanent operational subsidy. As against the per-seat subsidy which had been nullified by the Constitutional Court, it proposed a 10% decrease in the subsidy (Joint Czecho-Slovak Digital Parliamentary Library 2001; see Císař/Tomáš 2007; Haughton 2012; Šimíček 1997). President Havel vetoed the State Bond Program Act but the Chamber of Deputies overrode the president's veto.

In sum, after laying the ground for political party operation (with the symbolic basis including the adoption of the Political Party Act and the election cost subsidy), initial tendencies may be observed with the approval of the new election act in the direction of weakening funding for non-parliamentary parties (particularly the smaller parties). Along with the ruling by the Constitutional Court, a clear divide begins to be visible between actors holding opposing positions on the open/closed nature of electoral competition. The dispute heated up during the period of the so-called Opposition Agreement, which placed ČSSD and ODS on one side, and the remaining parties on the other. The latter (justifiably) felt particularly threatened by the amended Election Act, which was also opposed by President Havel and the Constitutional Court. But the latest regulation on state funding for political parties only partially reflects the concerns of the Constitutional Court. State funding for political parties was extended and reinforced by amending election cost payments, while at the same time lowering the per-seat subsidy only moderately and doubling the operation subsidy. The current way direct state funding of political parties is regulated ties political parties substantially to the state for funding (as will become clear later in the text) with parliamentary parties enjoying a favoured position.

Table 3: The overview of the rules applied for state subsidies in the Czech Republic

	Before the 1996 election	The 1996 and 1998 election	Opposition agreement	From the 2002 election
<b>Reimbursement</b>	10 (15) CZK/vote, 2% threshold	90 CZK/vote, 3% threshold	30 CZK, threshold 2%	100 CZK/vote, 1,5% threshold
<b>Permanent subsidy</b>	From 1992, determined by reimbursement	3 mil. + 100 k/0,1%, threshold 3% (max. 5 mil.)	3 mil. + 100 k/0,1%, threshold 3% + parliamentary representation in case of established parties (max. 5 mil.)	6 mil. CZK+ 200 k CZK/0,1%, threshold 3%, (max. 10 M)
<b>Per seat</b>	None	500 K CZK/seat in the parl.	1 mil CZK/seat + 250 k CZK/seat in reg. parl.	900 kCZK/seat + 250 k CZK/seat in reg. parl.

Source: authors

#### 4. Party Funding in the Czech Republic – empirical findings

Primary sources of information concerning the funding of Czech political parties are the annual financial reports of the parties and movements (hereinafter “Annual Reports”) which, since 2000, have included an auditor’s report confirming the accuracy of the data provided, in addition to the basic overview of income and expenditures.

Information may, of course, become distorted without the party books (and financial reports) needing to be manipulated, especially due to the aforementioned forms of indirect funding. In spite of or perhaps because of that, annual reports remain the key data source for research focusing on political party funding (see, e.g., Outlý 2003; Císař/Tomáš 2007). Despite the concerns raised, they remain the sole source from which systematic comparable information may be obtained for all political parties, from as early as 1995. The proven instances of falsified reports involved donor identity, something which is irrelevant to this paper, rather than the total volume of donations received by the party. Direct public funding itself can hardly be subject to falsification<sup>4</sup> and offer little room for rule breaking, as far as the parties are concerned. Public funding is calculated based upon the number of votes received by the party and the process of dividing the money is very straightforward. The analysis takes into account all parties (both parliamentary and non-parliamentary) which, during the period in question, received subsidies from the public budget based upon their election results in elections for the Chamber of Deputies.

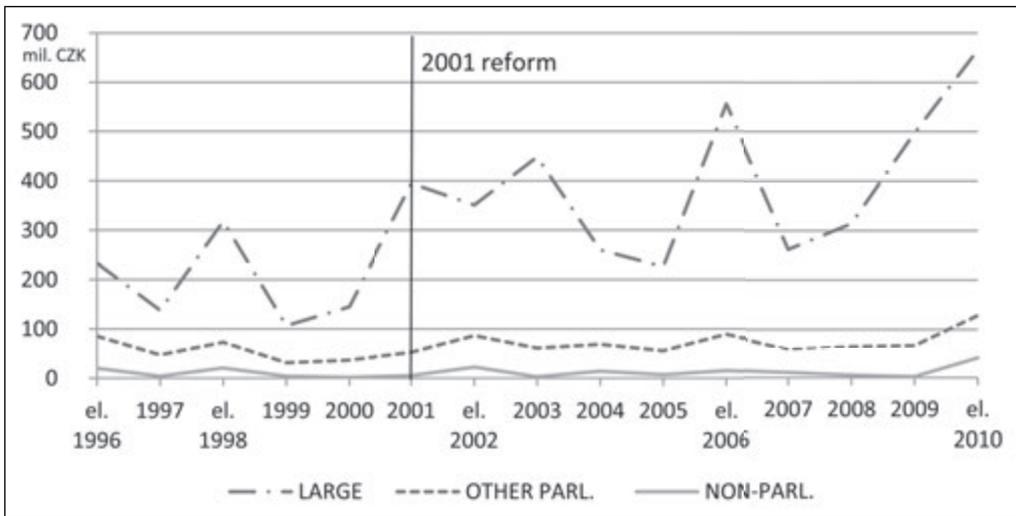
##### 4.1 Development of public funding of political parties

Out of all parliamentary parties in the Czech Republic, ČSSD and ODS, the two largest Czech political parties (from the point of view of long-term electoral results), also show the highest long-term income. In contrast to other parties, their income is also less balanced. First off, they have experienced a clear radical increase in income during election years, when the two parties’ more impressive election results have brought them higher subsidies for election costs. Second, the two parties also show a more significant long-term increase in party income, something which

is particularly clear post-2002 and in comparison to two smaller parties which were stable members of the Czech party spectrum during this period, these being KDU-ČSL and KSČM, whose income has remained more or less balanced. Another exception to the long-term trend is the sharp increase in ČSSD's income in 2001, a non-election year. This increase, which was actually an accounting increase, was tied to the transformation of the party's headquarters, the so-called Lidový Dům (People's Building) to its assets<sup>5</sup>. 2010 also saw a noticeable increase in funding for some smaller parties. These were two new parties: SPOZ and TOP 09. TOP 09 won 41 out of 200 seats and SPOZ 4.33% of the vote, not enough to enter the Chamber of Deputies, but enough to make it eligible for the election cost subsidy and permanent subsidy for party operation. Another two small parties, VV and Suverenita-Jana Bobošíková bloc gained considerably better results compared to previous elections, VV with 10,88% of vote and 24 seats, Suverenita 3.67% of vote sufficient to obtain both types of subsidies available for non-parliamentary parties. Figure 1 displays the average evolution of party budgets for the three categories of parties created to improve the clarity of the figure.

Figure 1: **Total Income Development in Millions CZK (Kč)**

(el. – electoral year, Chamber of Deputies; LARGE: average for the two largest parties ODS and ČSSC; OTHER PARL. average for other parties with a history of representation in the Chamber of Deputies; NON-PARL.: average for parties without a history of representation in the Chamber of Deputies)

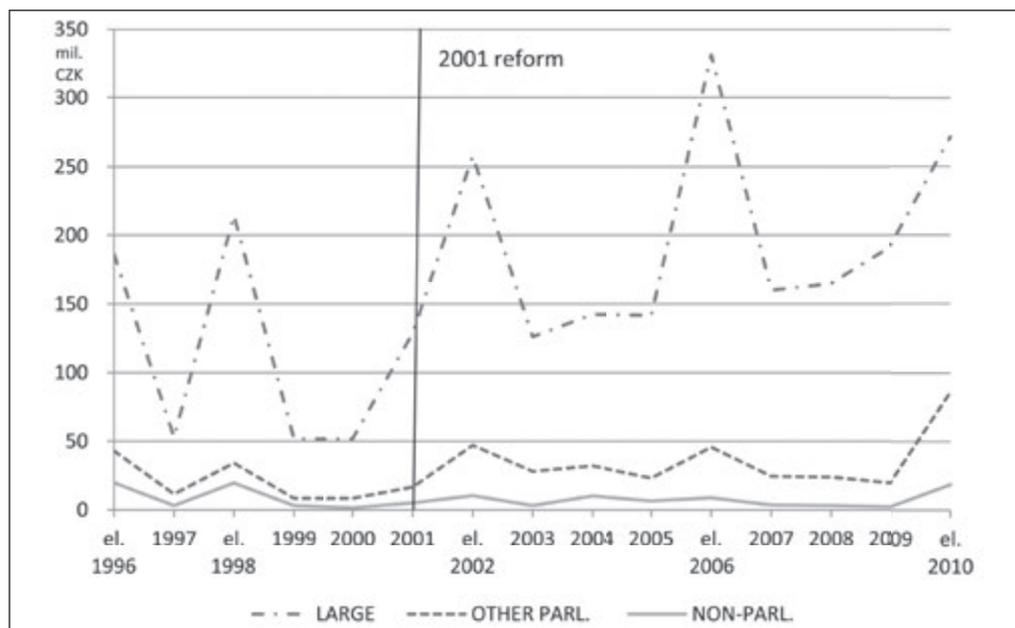


Source: authors

Figure 2 depicts the development of party income from public budgets for these three categories of parties. The figure depicts the increase in state funding provided to parliamentary parties after 2001, especially noticeable for the two largest parties. The trend for non-parliamentary parties is less clear due to the higher volatility of their electoral results. Overall, we can see a trend toward reinforcing state funding provided to large parties, primarily ČSSD and ODS, along with significant increases in income from the public budget in years in which new Chambers of Deputies were elected.

Figure 2: **Development of Income from Public Budget in Millions CZK (Kč)**

(el. – electoral year, Chamber of Deputies; LARGE: average for the two largest parties ODS and ČSSD; OTHER PARL. average for other parties with a history of representation in the Chamber of Deputies; NON-PARL.: average for parties without a history of representation in the Chamber of Deputies)



Source: authors

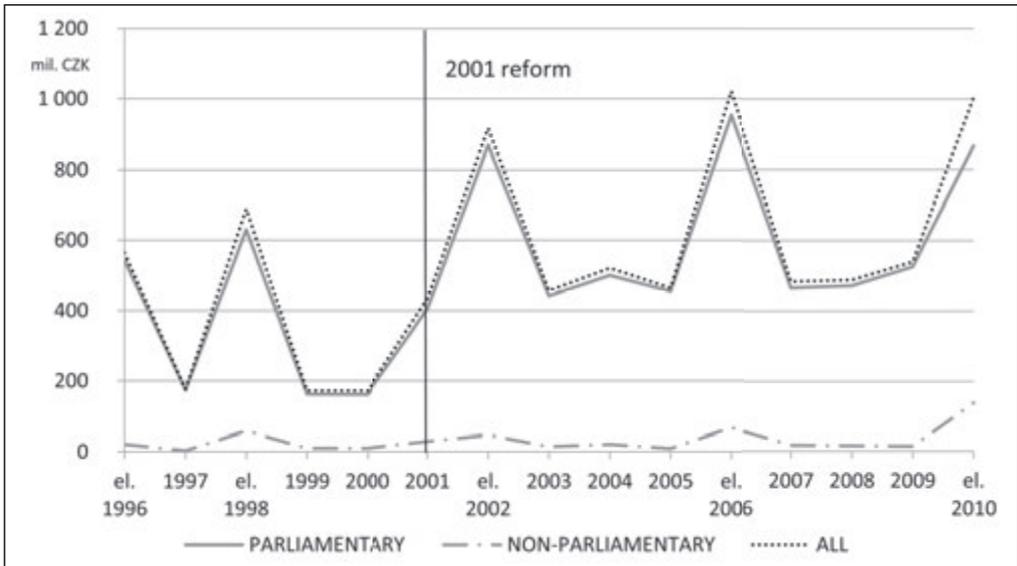
#### 4.2 Differences between parliamentary and non-parliamentary parties

One of the key arguments put forward for giving public monies to political parties is that it equalizes their standing during election campaigns (Outly 2003, 52–56; Scarrow 2006). In Czech political practice, however, there is no evidence of ties between public funding and the entrance of new parties to the government. Only a single case may be found in the period since 1996 in which a non-parliamentary party became eligible for the election cost subsidy or permanent subsidy in one election and did subsequently manage to overcome the 5% threshold in the next election: The Green Party, which obtained its first seat in the Chamber of Deputies in 2006 and in the Senate in 2004, had gotten an election cost reimbursement in 2002 and additional state funding connected to Senate, regional and European elections.

The extent to which state funding contributes to the relative stability of the Czech party system is clearly open to dispute. Its role is likely fairly diminutive in comparison with other systemic factors. But it may be said that state funding not only fails to help new parties enter the Parliament, it also strengthens the position of parliamentary parties vis-à-vis non-parliamentary parties. This argument is visible, e.g., in Figure 3, which depicts the total volume of state funding given to political parties and the amount of funds given to parliamentary versus non-parliamentary parties<sup>6</sup>. There is a huge gap between parliamentary and non-parliamentary parties. Almost all state funds go to the parliamentary parties.

Figure 3: Volume of State Funding in Millions CZK (Kč)

(el. – electoral year, Chamber of Deputies; 2001 – implementation of the only successful reform of public funding with long-term impact on the funding system)



Source: authors

Table 4: Subsidies connected with the election of the Chamber of Deputies, per vote

(\* The average only includes data for parties which put up candidate lists for the Chamber of Deputies in the given electoral term)

Year	97	98 (el.)	99	00	01 (ref.)	02 (el.)	03	04	05	06 (el.)	07	08	09	10 (el.)
Parliamentary	16	112	25	25	42	155	53	53	53	146	48	48	48	150
Non-parliamentary*	27	78	6	6	23	69	0	0	0	133	0	0	0	138
All analysed*	25	100	18	18	34	100	27	30	30	141	34	34	34	146

Source: www.volby.cz. 1996 is not shown in the table. No data is available for the year which would enable income connected to elections for the Chamber of Deputies to be differentiated from total state income.

Parliamentary parties enjoy a substantial advantage even if the subsidy is recalculated to arrive at the per vote value. Table 4 depicts the average amount of subsidies connected to the election in the Chamber of Deputies per vote (calculated from the number of votes a given party has received in the latest election in the Chamber of Deputies).

The table shows the often immense difference between parliamentary and non-parliamentary parties. The difference is smaller in election years during which more non-parliamentary parties are eligible for state subsidy, thanks to the lower threshold that must be crossed in order to qualify for the reimbursement of election costs. Considering that the election cost subsidy is paid only after the election and parties cannot be sure if their eligibility (some theoretically and some practically, as well), the effect of state subsidies the equality of elections is truly subject to

dispute (also see Outlý 2003, 60). On the contrary, it is clear that the legislative regulation of state funding may serve the parliamentary parties as a tool to weaken the role of non-parliamentary parties, and reinforce their own position.

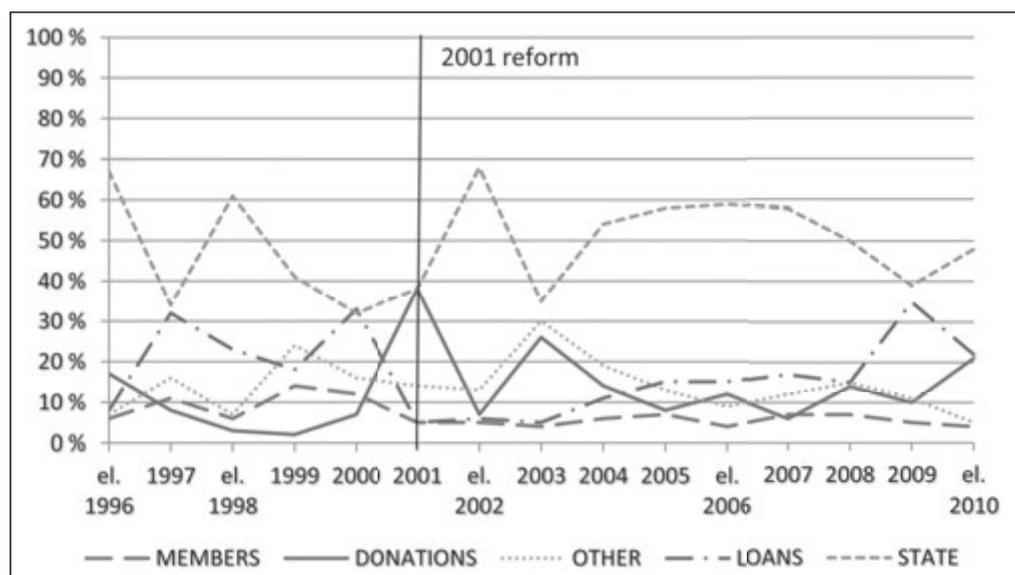
The implementation of legal changes in party funding in 2001 resulted in a significant increase in subsidy, which, recalculated to fit a per-vote value, had increased in 2001 to 168% of the previous year's amount. Data for non-parliamentary parties is unfortunately distorted by the fact that in 2001 the permanent subsidy for SPR-RSČ, which had previously been held under a court order, was paid out. This fact decreased the average for non-parliamentary parties in 1999 and 2000 and, conversely, increased the average for 2001 when a one-off payment was made covering previous years as well. The change between 2003 in 2004 in the average amount paid to all parties analysed occurred due to the demise of SŽJ.

#### 4.3 Types of financial resources of parliamentary and non-parliamentary parties

In addition to state funding, three basic types of political party resources may be identified: membership fees, gifts and inheritances and loans. The last category, labelled as "other" resources, primarily includes the party's gainful activity. This is income generated from the lease and sale of movable and real property, income from its participation in the business dealings of other entities, income from holding raffles etc.

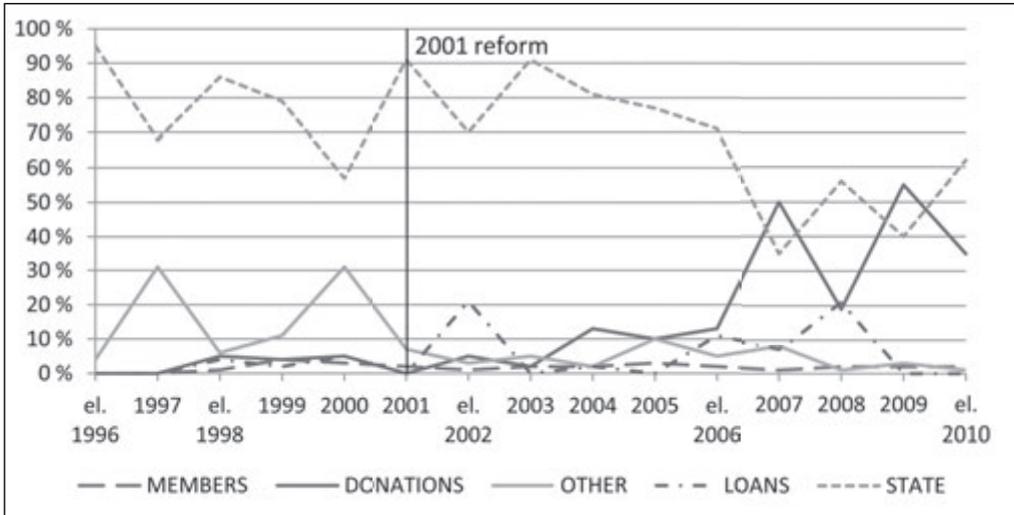
Figure 4 depicts the relative importance of individual resource types in the period under study for parliamentary parties and Figure 5 the same for the non-parliamentary parties. It is clear at first glance that the funding trends for parliamentary and non-parliamentary parties differ. For

Figure 4: Relative Significance of Individual Sources of Income, Parliamentary Parties  
(el. – electoral year, Chamber of Deputies)



Source: authors

Figure 5: **Relative Significance of Individual Sources of Income, Non-Parliamentary Parties**  
(el. – electoral year, Chamber of Deputies)



Source: authors

most of the period under study, their shared characteristics include the dominance of state funding. Another point they share in common is that membership fees for both represent a stable, but not very significant, income source, the least important source over the long term. In spite of this, they play a more substantial role for parliamentary parties whose membership base is larger. But even here a moderate declining trend may be noticed in comparison to non-parliamentary parties. This results from the increasing significance of other sources, reducing the relative importance of membership fees, and a decrease in this type of income for KSČM and KDU-ČSL<sup>7</sup>. The relative significance of state funding periodically increases in election years, when parties successful in elections to the Chamber of Deputies receive one-off contributions. The only exception comes in 2006, when the parliamentary parties registered a significant increase in income from loans and gifts, “neutralizing” the increase in state funding for that year. Therefore, the relative significance of state funding did not grow in that year.

Probably the most interesting development for both parliamentary and non-parliamentary parties is the relative significance of gifts and inheritance funds. For non-parliamentary parties, this had been a marginal source of income until 2003 not exceeding 4% of the total income value for the parties researched. But in 2003, the significance of gifts and inheritance began to grow, grew rapidly from 2006 and between 2007–2009, managed to become the most important source of income for non-parliamentary parties. The basis for this lies in the entry or revival of two non-parliamentary parties: SNK-ED was founded in 2006, and in the same year, VV increased its assets almost 8 times compared to the prior year. Sponsor donations and inheritance represent a significant income source for both these parties. TOP 09 reinforced this trend in 2009 and in the first year of its existence, obtained 97% of its income from gifts and inheritance. In 2010, the relative significance of state funding grew again as a result of the fact that an unusual number of parties (four) reached the state subsidy threshold (in one case, the threshold for the election cost subsidy only, in the other three for the permanent subsidy, as well).

For parliamentary parties, the trend is less clear. Gifts and inheritance had relatively high importance in the mid-1990s. Later, however (likely also as a result of large party “sponsorship scandals”), the share of this type of party funding declined. Since 2000, its significance has been growing. The sudden increase in 2001 and 2003 is, however, connected to developments within a single party – ČSSD – and the previously noted transfer of Lidový dům under its ownership<sup>8</sup>.

Loans were only marginal for non-parliamentary political parties until 2005. The 2002 increase occurred, once again, because of a single party. This time, it was ODA which took out a loan in the amount of almost CZK 10 million. The significance of loans is reinforced only later, in 2006, for the same reasons indicated above for the cases of gifts and inheritance funds. Interpreting the development of this source, i.e., the factors influencing it, becomes much more complicated for the parliamentary parties. The relative significance of loans grew sharply in 1997 and then dropped with equal force in 2001. This development may be explained to a certain extent by a decrease followed by an increase in the relative importance of other sources – state funding and gifts and inheritance. Starting in 2003, the significance of loans began to grow gradually until 2009, when there was a sudden increase, likely due to the preparations of parties for the “superelections” in 2010, when elections to the Chamber of Deputies, Senate and municipal bodies took place.

In the last, somewhat residual, other sources category, no clear trend is detectable for parliamentary parties. In contrast, for non-parliamentary parties, a gradual marginalization of this source is visible in 2002 compared to the prior period.

The differences between parliamentary and non-parliamentary parties, and the related differences between large and small parties, appear to be the most important factors affecting the sources of party funding. According to the data available to us, factors such as presence in government or in opposition, or the ideological profiles of parties, do not seem to hold significance. The only exception is the relatively larger importance of membership fees for KSČM (according to the party’s financial reports).

## 5. Conclusion

Analysis of the public funding of political parties in the Czech Republic demonstrates, that the Czech Republic is not one of the main arguments for supporters of state financing of political parties. In the scope of our research we did not find any indices, by which the system could be said to support equal opportunity or even partially to compensate for the position of non-parliamentary parties, which are from the point of view of parliamentary parties disadvantaged in the area of fundraising (e.g. regarding their limited access to the media) and in obtaining loans. Moreover the empirical findings indicate that the system actually contributes to the strengthening of the status quo by giving significant advantage to parliamentary parties over non-parliamentary parties. During the whole period under study, there has been only one case where a party has newly gained a seat in the Chamber of Deputies after receiving a subsidy from the state budget. Therefore, it would be very difficult to argue that state funding increases the system’s inclusivity.

From the analysis carried out it’s clear that the financing of political parties in the Czech Republic has undergone a substantial transformation and through the continued crucial role of state funding, a new feature has become clear and that is of the key importance of donations and loans, by which political parties take on the role of “political entrepreneurs” investing loans in the hope of uncertain gains in the form of election successes. Indeed it is this extensive state

funding of the activities of political parties, which makes extensive funding primarily through bank loans possible.

Generally speaking, it is possible to consider the whole system of state financing of political parties as an instrument that the parliamentary parties use to maintain their privileged position over possible new challengers. Further research should focus on party motivations, and would be necessary to confirm this assumption; however, there are three facts that currently support such a conclusion. First, there is a difference in absolute incomes between parliamentary and non-parliamentary parties (admittedly, this difference stems to a degree from the greater electoral successes of the parliamentary parties) as well as the difference in average amount paid (recalculated per-vote) to parliamentary and non-parliamentary parties. Second, election costs are reimbursed after the election. Although this technically makes sense, it has the consequence of further privileging established parliamentary parties, which can rely with a greater probability on obtaining a subsidy. This then allows them to fund electoral campaign through loans, which they then repay from reimbursement. Such a loan is much riskier for non-parliamentary parties that have been polling around 1.5% of the vote or less in the long-term, and for new parties. Third, the threshold, which must be crossed in order to obtain a permanent subsidy for operations, is high (3%), and during the period studied has usually proved unsurmountable for non-parliamentary parties. Indeed, only two of them, both in 2010, have managed to cross this threshold.

It is more difficult to answer the question whether the Czech party system is cartelized in terms of public funding. Since 1990, there have been attempts to increase public funding for political parties, and the legislation adopted has always favoured parliamentary parties over non-parliamentary ones to a certain degree. The evolution of state party funding in the Czech Republic is specific in that non-party institutions, especially the President and the Constitutional Court, interfered in the process. The latter in particular had repeatedly hindered attempts made by parliamentary parties (or, more narrowly, the signatories of the Opposition Agreement) to weaken the position of small political parties. The present nature of party funding in the Czech Republic resulted from a compromise, devised over the long term, to limit the onset of a full cartel in the system of public party funding. Despite the moderating role of non-party actors who defend the position of smaller political parties, it must be observed that state funding is a crucial source of income for political parties. As is apparent from their income structure, the connections between parties and the state are strong indeed, especially when the spotlight is on parliamentary parties.

#### NOTES

- 1 This paper was elaborated in the framework of the grant project *Contemporary Challenges of Democracy in East-Central Europe* (GAP408/11/0709) sponsored by the Czech Science Foundation.
- 2 All figures quoted in this paper are in the original currency, which is the Czech Crown (CZK). Yearly averages for CZK/EUR rate have ranged from 36.9 in 1999 through 30.8 (2002), 29.8 (2005), 24.9 (2008) to 25.3 in 2010 (for details see e.g. <http://www.kurzymen247.cz/mena/eur>). Information on inflation during the period studied can be found at, for example, [http://www.czso.cz/eng/redakce.nsf/i/inflation\\_rate](http://www.czso.cz/eng/redakce.nsf/i/inflation_rate).
- 3 The model is based on a calculation which combines the applicable legal regulation with electoral gains according to the corresponding electoral system (either the electoral system in effect during the 1990s, or the system proposed by ODS and ČSSD during the era of the Opposition Agreement). The calculation therefore employs hypothetical models of electoral results, which only consider the mechanical effects of the electoral system.
- 4 Parties include these resources in their annual reports, and a number of other official sources are readily available, which can be used to verify the veracity of their statements (the Czech Ministry of Finance publishes its own overviews, for example). Meanwhile, the size of subsidy for which a party is eligible is fairly easy to calculate.

- 5 Lidovy Dum, Prague, the historical headquarters of the party, had been a topic of ownership disputes starting in 1993 which found their way to the Constitutional Court in 1998. Based upon the court's decision, the property was transferred in 2000 to Cil Corporation, founded by ČSSD. A year later, Cil transferred Lidovy Dum on a cost-free basis to ČSSD. The transfer was registered as a donation of CZK 300 million in the accounting books. In subsequent years, Cil remained a key sponsor of the party.
- 6 In interpreting the figure, it must be noted that the analysis does not include those parties which have obtained the subsidy in connection with regional and Senatorial elections but failed to receive the state subsidy for the CR Chamber of Deputies. The total state subsidy paid to non-parliamentary parties each year is somewhat higher, but the difference is marginal (in 2010, e.g., parties not included in the analysis obtained less than 0.74% of the total volume of public funding, i.e., not quite CZK 7.5 million out of CZK 1.011 billion).
- 7 In 2010, however, KDU-CSL joined the ranks of non-parliamentary parties.
- 8 In 2011, ČSSD registered gifts and inheritance funds in the amount of almost CZK 386 million, and its total income reached almost CZK 574 million. In 2003, the party received gifts exceeding CZK 303 million, out of a total income of CZK 441 million.

## LIST OF ABBREVIATIONS OF POLITICAL PARTIES

ČSSD – Czech Social Democratic Party  
 DŽJ – Pensioners for a Secure Life  
 KDU-ČSL – Christian and Democratic Union – Czechoslovak People's Party  
 KSČM – Communist Party of Bohemia and Moravia  
 ODA – Civic Democratic Alliance  
 ODS – Civic Democratic Party  
 SNK-ED – Association of Independent Candidates – European Democrats  
 SPOZ – Party of Citizens' Rights – the Zemanites  
 SPR – RSC – Association for the Republic – the Republican Party of Czechoslovakia  
 SZ – Green Party  
 SŽJ – Party for a Secure Life  
 TOP 09 – Tradition, Responsibility, and Prosperity 2009  
 VV – Public Affairs

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