

# Economy and Transparency of Czech Political Parties

Marek Pavlík, and Jana Godarová

**Abstract**—Democratic states cannot exist without political parties and political parties cannot exist without financial resources. The way of how political parties gained their financial resources can have direct impact on the democratic process in the state. Seeing the role of political parties as key for the democracy, we have to put a stress on the transparency of these political parties. Many countries traditionally support their political parties from the state budgets, what is different are conditions and extent of financial support. How can we assume that non-transparent political parties would create transparent state system or state policy? The aim of our paper is to demonstrate the problem of transparency of political parties on the case of the Czech Republic and find out if there is a tendency to increase or decrease the level of transparency. To find an answer; we analyze data since 2003 to 2013.

**Keywords**—Annual report, Economy, Political party, Transparency.

## I. INTRODUCTION

CAN we assume that non-transparent political parties would create transparent state system or state policy? To answer this provocative question we have to forward attention to the problem of transparency of political parties and their financial relationship with the state budget. Democratic states cannot exist without political parties and political parties cannot exist without financial resources. The way of how political parties gained their financial resources has direct impact on the democratic process in the state. Member and leaders of most successful parties are chosen to be members of representative bodies and the cabinet. As Davidson noted “Money plays a central and indispensable role in modern electoral democracy. One’s desire to win or remain in power will need significant planning and organization and extensive resources” [1].

The regulation of financial freedom is a major component of electoral democracy [2]. There are three basic principles of how to manage political parties’ finance: the equity, freedom and public control. The first principle equity means enabling the possibility to have an equal competition among political parties and this principle is traditionally considered as an argument for subsidies from the state budget for political

parties. The second principle “freedom” represents the idea that each party must have a chance to gain financial resources thanks to its own activity. And the “public control” represents the final principle. Aside from details the public should have an access to the information about political parties’ finance. We demonstrate the problem of public control on the case of the Czech Republic; however the role of public control is important in any electoral democracy. Problems connected with relationship between the state and political parties were already discussed e.g. [3, 4, 5]

The aim of the paper is to demonstrate the problem of transparency of political parties and find out if there is a tendency to increase or decrease the level of transparency. We analyze Czech data since 2003 to 2013 accessible at websites of political parties and reports of political parties available only at the Library of The Chamber of Deputies of the Parliament of the Czech Republic.

## II. POLITICAL SYSTEM OF THE CZECH REPUBLIC

The Czech Republic is parliamentary democracy with a president as a head of state (is elected directly by citizen every five years). Czech parliament consists of two chambers - the Chamber of Deputies and the Senate. Every citizen of the Czech Republic who has attained the age of 18 acquires the right to vote in the Chamber of Deputies and the Senate.

The Chamber of Deputies consists of 200 members who are elected to it every four years in the elections. The electoral system is based on the principle of proportional representation. Based on the results of these elections is the creation of a new Czech government. Every citizen of the Czech Republic who has the right to vote and has reached the age of 21 may be elected in the Chamber of Deputies. Deputies are elected as representatives of political parties.

The Senate is composed of 81 senators who are elected under the majoritarian electoral system to a six-year period. Elections are held every two years, when the third of the new elected senators. Every citizen of the Czech Republic who has the right to vote and has reached the age of 40 may be elected in the Senate. The Senate is designed as a counterweight to the Chamber of Deputies, as an element of generating higher quality requirements of the legislative process and as an element of continuity in the event of Parliament that was dissolved Chamber of Deputies.

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### III. THE SYSTEM OF SUPPORT OF POLITICAL PARTIES FROM THE STATE BUDGET IN THE CZECH REPUBLIC

The basic financial principles for political parties are determined by the Czech law No. 424/1991 and No. 247/1995. The authorized financial resources are following:

- allowance for covering election cost from the state budget,
- allowance for covering activities and subsidy for the mandate from the state budget,
- non-state incomes as: membership fees, gifts and heritage; income from renting and selling of property; revenue from raffle; income from organizing cultural, educational and political actions; debts and interests from debts; and income from business selected activities (publishing; radio or TV broadcasting; organization of cultural, sport, leisure-time and political activities; production of promotional items).

The same law also set the duties for political parties. Aside from standard duties including accounting and tax evidence they have to submit annual report to the Chamber of Deputies (before the 1st of April). This report has to be proofed by the auditor and has to consist: balance sheet; profit and loss report; the review of revenues and expenditures (including expenditures on election and salaries), the list of donors; list of member whose membership fees were over 50,000 CZK (approx. 2,000 EUR). Without this report the activities of party must be stopped by the decision of court. Although the internet is standard communication media of today; reports are usually not accessible online. It is necessary to visit the Library of the Chamber of Deputies and rewrite data from papers in person. There is no law to force the parties to publicly display annual reports on their websites.

Following table no. 1 shows the allowances from the state budget. To explain the system we have to mention that the Czech Parliament have two chambers and there are also 13 regions and capital city Prague which are counted for the state allowances for political parties. There is no special rule for spending these allowance i.e. subsidy for covering election costs can be spend also for other purposes than election.

To demonstrate the role of the state financial resources in the case of Czech political parties we present comparison in following table no. 2. Although the comparison with other countries is not representative; it is obvious that the Czech system is very generous. With respect to this fact the role of transparency in the case of economy of political parties became more serious.

TABLE I  
REVIEW OF THE STATE ALLOWANCES FOR POLITICAL PARTIES

Type of allowance	Conditions	Amount of EUR per year <sup>a</sup>
<i>Permanent allowance</i>	Each party which gained at least 3% of votes in the last election to the Chamber of Deputies of the Parliament of the Czech Republic	240,000 + 8,000 EUR for each 0,1% of votes (max 400,000 EUR)
<i>Allowance for mandate</i>	Mandate of member of Chamber of Deputies and the Senator	34,200 EUR
	Mandate of member of regional municipal bodies and member of the capital city body	9,500 EUR
<i>The allowance for covering election costs</i>	Only election to the Chamber of Deputies or election to EU	4 EUR per single vote but at least 1.5% of all votes 1.2 EUR per single vote but at least 1.0% of all votes

<sup>a</sup> 1 EUR = 25 CZK

Source: Czech laws [6]-[8]

TABLE II  
ALLOWANCES FOR POLITICAL PARTIES AS A PERCENTAGE OF THEIR REVENUES, THE STATE BUDGET AND GDP

Source: Authors according [9-14]

Country	State allowances as a percentage of the revenues of political parties	State allowances as a percentage of the state budget	State allowances as a percentage of GDP	Year
<i>Czech Republic</i>	36.5%	0.05%	0.013%	2012
<i>Czech Republic</i>	63.4%	0.11%	0.019%	2006
<i>Canada</i>	60.6%	0.02%	0.004%	2006
<i>France</i>	46.3%	0.03%	0.005%	2005
<i>Germany</i>	31.0%	0.05%	N/A	2006
<i>Romania</i>	30.9%	0.04%	0.001%	2000
<i>USA</i>	N/A	0.001%	0.0002%	2004
<i>VB</i>	30.0%	0.01%	N/A	2006

### IV. ECONOMY OF POLITICAL PARTIES

We can find differences in structure of financial resources between parliamentary parties and smaller local political parties. Local parties survive only through their own activities. Their most important revenue comes from gifts and membership fees. Unlike the significant revenue budgets parliamentary parties flows from state budget (30 – 60 % of their total revenue in average). An extreme was 90% for “VV” (Public Affairs) in 2012.

The state allowances are amended by gifts and membership fees, as the second important revenue, and other allowed income of political parties (mentioned above). Mix of these revenues doesn't tend to be in standardized structure but it depends on strategy of political parties. The example of this

strategy can be noticed in the list of donors. There is no duty to donate the political party for their members. However members who are “in position” (e.g. member of the Parliament) usually give the same amount of money to the party. Another group of donors are companies whose gifts are results of personal relationships among member of political party and the company owner/director.

We sort political parties with state allowances to three groups: parliamentary parties, non-parliamentary parties with senator or representative of the regions (or Prague), and other political parties with state allowances. It has to be said that the state allowances are doubled in election years (see table no. 3 – year 2006, 2010, 2013).

TABLE III  
REVIEW OF EXPENDITURES FROM THE STATE BUDGET FOR CZECH POLITICAL PARTIES

	Parliamentary parties		Parties with senator or representative of the region		Others parties		Total revenues from the state budget (mil. EUR <sup>a</sup> )
	Number of parties	Percentage of total state allowance	Number of parties	Percentage of total state allowance	Number of parties	Percentage of total state allowance	
2013	8	90,1%	16	8,1%	2	1,8%	38,1
2012	5	87,5%	16	11,0%	1	1,5%	19,7
2010	7	93,4%	9	1,4%	2	5,2%	40,5
2006	6	97,1%	10	2,9%	0	0,0%	39,9
2004	5	91,8%	13	6,4%	3	1,8%	21,8
2003	5	94,1%	9	5,9%	0	0,0%	18,8

<sup>a</sup> EUR = 25 CZK

Source: [15], modified by authors

Note: each party is counted only once (e.g. parliamentary party which has also regional representatives is counted only in the group “parliamentary parties”)

The Chamber of Deputies in the Czech Republic is made up of five to eight political parties that have changed over the years. In the selected period, we closely looked at three the most powerful political parties: ODS (Civic Democratic Party), ČSSD (Czech Social Democratic Party) and KSČM (Communist Party of Bohemia and Moravia).

We noticed significantly different structure of revenues caused by traditions, structure of property and strategic management. KSČM has revenues of fewer than 7.5 million EUR in the long term and it doesn't use loans or credits. ČSSD covers the election spending just through debts; while ODS has different strategy, the party increases percentage of gifts which implicate better fundraising strategy. We can see as ČSSD increases debts year by year.

ČSSD has revenues between 10 and 29 million EUR which is similar to ODS. Generally, we can see the most balanced structure in KSČM in the reference period; although the ČSSD has the strongest position through the real estate ownership.

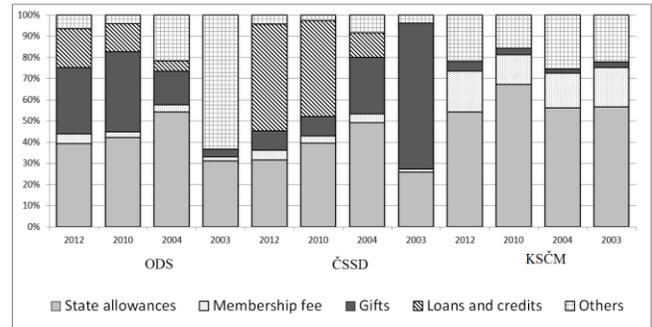


Fig. 1 Revenue structure of selected political parties (ODS, ČSSD, KSČM)

Source: [9], modified by authors

The most important expenditure is spending on elections for most political parties (see ODS and ČSSD), both parliamentary and municipal elections. Exception to this trend is KSČM which has devoted voters and election spending are approximately 50% of the state allowance for covering election costs. The paradox (from the Czech point of view) is that KSČM was the leading party before the velvet revolution in 1989 as the party was responsible for poor economic situation of the Czech Republic (formerly Czechoslovakia).

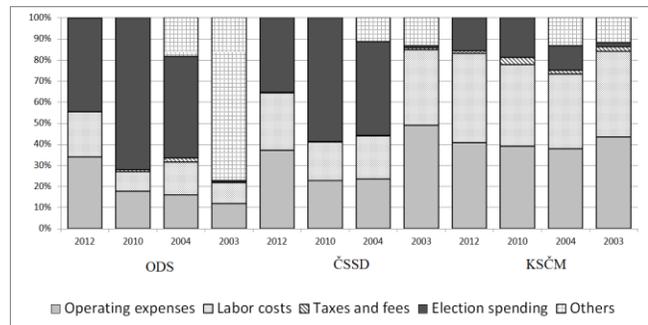


Fig. 2 Expenditure structure of selected political parties (ODS, ČSSD, KSČM)

Source: [9], modified by authors

Note: in 2010, 2012 “Others” is not included in division of expenditure.

## V. TRANSPARENCY OF POLITICAL PARTIES

To demonstrate the problem of transparency we compare data gained through research done in 2005 and 2013 and we have complete data for four years (2003, 2004, 2010 and 2012). Our first research question is if during time the annual report and its requirements given by the law are fulfilled increasingly or decreasingly by political parties. The second question is if political parties use their websites for public displaying of its annual reports.

Theoretically, by the law, any mistake or missing part of annual report is the reason for the process of interrupting or stopping legal activity of given political party. The reality, on the other hand, shows that perfect annual reports are not presented always (see table no. V).

TABLE V  
TRANSPARENCY OF POLITICAL PARTIES – OBLIGATORY ANNUAL REPORTS

Year	2003		2004		2010		2012	
	Fulfilled	%	Fulfilled	%	Fulfilled	%	Fulfilled	%
<i>Registered political parties</i>	78	100%	90	100%	178	100%	184	100%
<i>Turned in annual report</i>	66	85%	71	79%	115	65%	124	67%
<i>Financial statements</i>	66	100%	71	100%	114	99%	117	94%
<i>Financial statements - annex</i>	28	42%	38	54%	96	83%	114	92%
<i>Auditor report</i>	63	95%	70	99%	111	97%	116	94%
<i>Income and expenditure overview</i>	62	94%	70	99%	113	98%	119	96%
<i>List of donors</i>	57	86%	67	94%	110	96%	119	96%

Source: [9, 16]

Since 2003 we can see more than two-fold increase of the amount political parties predominantly due to expansion political activity on the level municipalities, however, we can see some newly formed political parties as well. It seems that the compliance of the legal obligations (established by Act No. 424/1991) should be routine for the political parties and fulfillment of obligations should be increasing; but it is not so. Percentage of parties that turn in an annual report is decreased between 2003 and 2012. On the other hand, we can see an increased percentage of the completed annual reports with all obligatory parts. The parliamentary parties fulfill this obligation without problems; their annual reports are complete and submitted in time. The financial statements (annexes) are the most problematic part of annual reports.

To discuss the second research question – how transparent are political parties voluntarily. We can find out the answer in table no. 6 which we are present results for the year 2014. A ten year ago (2004) only 2 political parties put the report on the websites [16].

TABLE VI  
TRANSPARENCY OF POLITICAL PARTIES – WEBSITE

	in year 2014	
	Number	%
<i>Political party with public subsidy in 2013</i>	26	100%
<i>Website</i>	26	100%
<i>Posted annual report 2012 on website</i>	13	50%
<i>Long-term posted reports (more than 2 periods)</i>	6	23%

Source: Authors, based on website of political parties

After ten years the situation has changed. Each of political parties with public subsidy has their website, but only 50 % of them posted the last annual report on website and only 23 % of them posted the annual reports regularly (monitored in 2014). All parliamentary parties posted their last annual report (except one new parliamentary party – “Úsvit”), but only two of the six (we look away from new parties) posted the reports regularly and easily approachable on their website.

## VI. CONCLUSION

We discussed the problem of transparency of political parties as well as dependency on the state budget in this paper. Although the problem was demonstrated on the case of the Czech Republic we can seriously ask if the situation in other post-communistic countries is different. Transparent behavior of strongest political parties could be one of symbols democracy. However the state approach to political parties which did not submit the annual report seems to be lenient, at least. The fact that the ratio of political parties which submit the annual report is decreasing during time is alarming.

The structure of revenues shows quite significant dependency on the state budget which can cause non-desirable passivity of political parties in their own fundraising activities.

The roots of this situation can be found in two failures. Voters do not push on the parties to be more transparent and the state (led by the political parties' members) does not ask the transparency as a condition for public money support. There is no simple solution; however the comparison with other countries can be one of stimulus for improvement. The long term research of transparency among European and non-European countries is the challenge for future research.

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