

Party Funding in Hungary

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Introduction

Hungary's party finance regime is indicative of the country's overall constitutional structure in at least two ways. First of all, it was, similarly to that configuration, designed by consensus-seeking, but distrustful, elites; it therefore contains elements of divergent models and is, on the whole, rather complex. Secondly, like the constitution itself, it has, despite continuous criticism from virtually all parts of the political spectrum, been changed only slightly over the past decade.

To the outside observer, the most remarkable fact is that the current regime allows political parties to live largely on taxpayers' money. Ironically, this is the least criticized element of the system. Certain proposals for reform would even call for the elimination of other, non-state, sources of income. A second major distinguishing feature is that despite, or perhaps because of, the bias towards funding by the state, the present arrangements are liberal with regard to non-state sources of income. As a result, Hungarian parties are in a comfortable position: they are free to garner unlimited financial support, although—because of the present upper limits on campaign spending—they are by no means obliged to do so. Parties are fortunate because they do not have to fear government interference in their internal affairs. Only the State Audit Office, an independent body responsible to Parliament, can check their expenditure. The public, too, is fortunate, in theory: transparency is a legal obligation, and the disclosure of party income and expenditure is institutionalized.

Despite such favorable conditions, none of the abovementioned actors is particularly happy with the situation. Scandals erupt regularly, indicating that parties try to circumvent the regulations. The State Audit Office complains that the officially dictated structure of the financial reports makes it difficult to assess monetary flows accurately, that campaign funding is ill defined, and that the Office is not equipped to expose or punish wrongdoings. The public is convinced that all parties cheat in one way or another, and there is constant discussion in Parliament on the need for reform. As yet, no consensus has been reached.

1 Description of the Party-Funding Model

1.1 *Laws and Regulations on Party Funding*

Regulations concerning the registration of political parties are relatively liberal in Hungary. To be registered, a party needs to collect the signatures of only 10 Hungarian citizens, to elect a representative body and to adopt party statutes. More than 200 parties have been registered in the past decade or so, although almost half no longer exist or have transformed themselves into civil associations.

The system of party finance was established during the 1989 round-table discussions, i.e. before the first democratic parliamentary election but after the establishment of the most important political parties. While designing a general system of finance, the elites had also to frame specific regulations for the period of transition from a single-party system to a genuinely pluralistic one. Until the first election, subsidies were based on membership size. Since there was then no reliable method for checking this, the politicians in the round-table

discussions jointly estimated the size of the parties. While figures referring to the major parties were more or less realistic, over the following months several “phantom parties” emerged and received state support on the basis of purely imaginary membership figures. Skilful entrepreneurs thus obtained small fortunes without engaging in any meaningful political activity (Juhász, 2001: 11).

Another challenge was the privileged position of the Hungarian Socialist Party (MSZP), the successor to the Hungarian Socialist Workers’ Party (MSZMP), i.e. the communist party. The MSZMP had been present in all places of work in Hungary, had owned a vast number of newspapers, firms and premises; and had used 365 buildings that were officially owned by the state. The negotiators decided to uphold the right of the Socialists to retain their inheritance, but the party, along with all other parties, was banned from places of work and was told that it should be ready to return state-owned buildings.[†]

Unresolved questions concerning the Socialist Party’s property holdings poisoned the political atmosphere in the following years, but the establishment of a structure for party finance proved to be an important consequence of the round-table talks. Here I shall briefly summarize the system’s main features. I shall then discuss its various aspects in more detail in subsequent sections.

The agreement of the elites was expressed in the so-called Party Law (Law XXXIII of 1989).[‡] According to this law, parties can finance themselves by way of the following main sources: Subsidies provided by the state, private donations, membership dues, economic activity by the parties themselves and economic activity by public and private limited liability companies established by the parties.

There are no restrictions on the size of contributions that can be solicited from private individuals or private companies, but parties cannot accept donations from companies owned by the state. Moreover, since the amendment of the Party Law in December 1992, foundations supported by the state and companies partially owned by the state have also been excluded from the list of permitted donors. Anonymous donations are banned.

The sum allocated to parties by the state budget is shared out proportionally, on the basis of the number of votes received by the parties at the last parliamentary election. The precise sum is decided by Parliament every year, as part of the national budget law. Three quarters of the sum are distributed on the basis of votes cast for those parties securing more than 1 percent of the vote. The remaining quarter is distributed equally among the parties represented in Parliament. Donations given to political parties are not tax deductible. On the other hand, the economic activity of parties is exempt from taxation, although they must pay the usual employer’s dues, social security contributions, and so forth. Parties are obliged to make their annual budgets public. Only the State Audit Office is allowed to investigate the accuracy of the financial reports. In case of suspected fraud, the State Audit Office may turn to the courts.

These features of the party finance regime have proved to be enduring. This is not surprising since the Party Law can only be amended by a qualified (i.e. a two-thirds) majority vote in Parliament. However, this does not mean that there have been no modifications to the law during these years.

Table 1 lists the most important laws affecting party finance. As it shows, the Party Law was amended to allow parties to use state-donated buildings for profit. At the same time, the list of illicit sources of finance was enlarged. The Electoral Law of 1989 did not lay down separate financial rules for an election period, but it did specify the parties’ duty to report

[†] The hand-back occurred ten years later, in 2000.

[‡] Reprinted in Gábor Tóka and Zsolt Enyedi (1999) *The 1994 Elections to the Hungarian Assembly*. Berlin: Sigma, 249–256.

separately on their election expenditure. In 1997, the Law on Campaign Finance introduced additional regulations on the disclosure of campaign expenditure, and also placed limits on the sums that could be spent. The threshold for state support was raised and disclosure was made more standardized. In 1991, a separate law granted headquarters buildings to all parties that had secured more than 1 percent of the vote in the 1990 parliamentary election. In 2000, two laws relating to headquarters premises finally deprived the Socialist party of its state-owned buildings and distributed additional office space among the other parties.

Table 1

Major Laws Regulating the Finances of Hungarian Parties

Year of introduction Title	Main elements	Date(s) of amendment	Main amendments	
1989	Law XXXIII of 1989 on the Operation and Financial Functioning of Political Parties (Party Law)	Income of parties can include fees, state funding and earnings from narrowly prescribed economic activity. Parties can also establish for-profit companies. These companies are subject to standard tax regulations, while parties are not.	August 1990, Law LXII of 1990 December 1992, Law LXXXI of 1992	The upper limit on state subsidies is abolished. Parties are not allowed to receive donations from companies partially owned by the state or from foundations supported by the state. Parties whose national list did not pass the threshold for election to Parliament are no longer entitled to a share of the 25 percent segment of the annual national budgetary support for parties. Economic activity by parties (including the sale or leasing of buildings) is exempt from taxes. The State Audit Office is to check the parties' finances every two years. New standardized, but less detailed, budgets are demanded from the parties.
1989	Law XXXIV of 1989 on the Election of Members of Parliament (Electoral Law)	Parties must publish their campaign budgets in the press.	1997, Law C of 1997	Campaign expenditure must be reported in the National Gazette. Individual candidates cannot spend more than HUF 1 million.
1991	Law XLIV of 1991 on the Parties' Headquarters	All parties obtaining 1 percent or more of the popular vote receive offices from the state. The headquarters buildings hitherto rented by the parties from the state are given to the parties for good. The buildings become the parties' property. Parties can sell these state-donated buildings.		

2000	Laws XCIV and XCV of 2000 on Party Properties	Parties submitting a national list at elections and having a faction in Parliament are entitled to the free use of state-owned offices. The maximum number of state-owned offices that can be used by any one party is set at 30.		
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1.2 Party Structures Dealing with Funding

In theory, in all parties funding is controlled by the national boards and, ultimately, by the party congress. Treasurers are, in most cases, elected by congress and have a duty to make regular reports to it. In reality, not even the leadership is aware of all the details of financing. In 1994 a member of the presidium of the Federation of Young Democrats (Fidesz) demanded full financial accounts from his party and in 1999 the vice-president of the Hungarian Justice and Life Party (MIÉP) did the same. The two were subsequently forced to leave their respective parties.

Branches or district organizations have their own bank accounts and finance themselves relatively autonomously. When party officials are asked about campaign finances, they sometimes confess that they are unable to follow the finances of local organizations, although the financial reports should cover all organs of the party in question.

1.3 Membership Fees

The minimal monthly membership fee in most parties is 100 forints (approximately USD 0.4). Local branches can ask a somewhat higher sum from members who can afford it. Politicians who occupy public offices, for example, are often asked to contribute larger amounts. This practice is most institutionalized in the Socialist Party. Here, candidates for public office must agree to pay 15 percent of their public office salary to the party. The sum that reaches the party purse in this way often exceeds the amount collected from membership fees. If one calculates the average MP's salary in 2002 to have been approximately 250,000 forints, then such contributions from the 150-strong parliamentary faction must have been around 50 million forints. Not even the parties most geared to the recruiting of members can amass even half such a sum from membership fees.

While the proportions of membership fees in overall budgets are uniformly small (i.e. below 5 percent), their fluctuations deserve attention. After the electoral victory of the Federation of Young Democrats–Hungarian Civic Party (Fidesz–MPP) in 1998, donations by members and contributions suddenly increased tenfold, although the amount collected in this way still lagged behind the sums reported by the two leftist parties, the Hungarian Socialist Party (MSZP) and the communist (and extra-parliamentary) Workers' Party (Munkáspárt).

1.3 Private Donations

Parties can accept donations from any source except foreign governments, state enterprises, state-supported foundations and anonymous donors. Donations appear to be a less significant source of revenue than public funding. But considering that support provided by the state is usually better reported (especially in the case of the opposition parties), one cannot

be sure of the exact role of private donations. There can, however, be no doubt that as sources of finance donations are significantly more important than membership fees.

According to official reports, the importance of donations increases in election years. In 1990, for example, the Hungarian Democratic Forum (MDF) received 68 million forints from donations. This sum amounted to almost one fifth of the party's annual income and two thirds of its official campaign expenditure that year (Juhász, 2001: 55).

Financial support from foreign sister-parties seems to be insignificant. Of course, this does not mean that the conferences, seminars and training camps organized by the foundations of parties in Germany, The Netherlands, Great Britain and elsewhere are irrelevant. Instead, the prestige derived from association with a Western political actor seems of more consequence than actual money transfers. In some cases, foreign foundations pay for expert studies that are eventually utilized by parties.

Allied Hungarian parties may also support each other in particular cases. The Socialists, for example, gave 16 million forints to the Agrarian Alliance between 1998 and 1999. No Hungarian party receives significant contributions from interest groups. On the other hand, the largest trade-union federation (MSZOSZ) participates through its activists in the Socialist Party's election campaigns.

Banks are becoming more important players, e.g. by granting favorable loans to political parties. Since most banks are at least partially owned by the state, it is often a company or a foundation close to the party in question that actually receives the loan. In these cases, the party itself may provide the security for the loan.

All interviews conducted for this research indicated that a large portion of support from private actors takes the form not of cash, but of unpaid services. Companies contribute to campaigns either by asking a reduced fee, or by asking no fee at all. Victorious parties acknowledge this help when awarding government contracts and framing specific government policies.

1.5 Party Firms and Foundations

Parties are allowed by law to establish and own companies. These companies, as well as the parties themselves, are entitled to conduct for-profit business. However, parties are severely restricted in this domain. They are allowed to sell only publications, emblems and insignia, and to lease out properties in their possession. Office space rented from the state cannot be used for commercial purposes. Parties may buy government securities, but not corporate ones. These restrictions do not apply to companies established by parties. The Tax Office controls the activities of the companies, but not of the parties.

Foundations play an important role in the financing of parties, sometimes an even greater role than companies. Foundations provide parties with various services, such as education, propaganda materials and publicity, and in some cases they support newspapers. Parties often pay their experts via foundations, and, as mentioned earlier, foundations and firms may channel money from donors who wish to remain anonymous. Finally, parties support foundations in order to escape reporting obligations concerning their expenditure. The MIÉP regularly transfers most of the money it receives from the state to the Hungarian Forum Foundation. Foundations have flanked Hungarian parties from the very beginning, i.e. 1989. Although by law they must be independent of their original instigators, there is often a partial or even a complete overlap between party leaderships and foundation leaderships. For parties, one of the attractive features of foundations is that their accounts are not public.

Parliament has tried to reduce partisan influence in civil foundations. According to Law CLVI of 1997, only donations made to foundations that help guarantee party neutrality enjoy tax benefits. Some party-related foundations are very wealthy indeed. When the

Socialist Party sold the local newspapers and publishing houses it inherited from the communist party, it received almost 1 billion forints, i.e. almost as much as the annual income of all the other parties put together. Using half this sum, it set up a foundation that operates a newspaper, holds stocks in companies and provides support for the party's election campaigns (Tóka and Enyedi, 1999: 37). Even more "transparent" has been the role of one of the foundations with links to the Free Democrats (this had the straightforward name "For the Free Democrats"). This foundation was charged with soliciting money for the party. During the election campaign of 1994, it made available 246 million forints, more than half the party's annual income.

The presence of firms and foundations seriously obscures party finance. Sometimes, especially during election campaigns, only half the activists, experts and bureaucrats of a party are on that party's payroll: the others are paid by foundations and firms. As a result, it is almost impossible to establish how much money the parties actually spend on campaigns.

1.6 Party Assets

The state has donated a significant amount of real estate to political parties in order to provide them with office space. Parties can utilize the buildings they own as they see fit, e.g. by renting them out. Parties also rent buildings and rooms from the state, although they are not supposed to sublet these properties.

While the financial significance of state-donated buildings may diminish over time, during the last decade or so they have been a major source of income. In 2000, the Free Democrats (SZDSZ) sold their headquarters for 554 million forints, while the Independent Smallholders' Party (FKGP) received around 700 million forints from the sale of office space in 2002. For its part, the Christian Democratic People's Party (KDNP) received 450 million forints in 1999, namely 89 percent of its budget for that year. In 1994, more than one third of the Socialist Party's income was from the sale of real estate.

The first wave of office distribution took place in 1991, and a second in 2000. According to the "new deal" of 2000, each party may have free use of a maximum of 30 state-owned office properties. If a party is not re-elected to Parliament, it must return any such properties to the state. The 2000 laws and decrees did not regulate the number of office properties made available to parties by municipal authorities, usually for a token fee. The Socialist Party complained bitterly about this omission, since other parties typically had more office space rented (at very moderate prices) from sympathetic local municipalities than did the Socialists.

1.7 Public Funding

1.7.1 Direct Funding

As mentioned in the introduction to this paper, the state budget allocates a specific amount annually for the routine financing of the parties. By the terms of the Party Law, three quarters of this state subsidy is distributed among those parties that achieved at least one percent of the popular vote at the previous national election. The distribution is proportional to the votes they gained. The remaining quarter is distributed equally among those parties represented in Parliament. Splinter groups are entitled to support only when they are able to run under their own names in elections.

In 1989, politicians hoped that parties would be able to finance themselves. A proviso was inserted into the Party Law stipulating that money from the three-quarters share of the

annual state subsidy can make up no more than one half of a party's overall annual budget. In the following year, Parliament abolished this rule. In 1990, certain parties, such as the KDNP, the FKGP and Fidesz, received more than 80 percent of their income directly from the state. The Socialists could rely on wealth inherited from the communist party, but during the course of the 1990s even they began to depend on state support. During the first decade of democratic politics there were years when some parties received no less than 95 percent of their income from the state budget (Tóka and Enyedi, 1999: 13).

The rules concerning state financing were modified again in December 1992, so that parties represented in Parliament but lacking the status of a parliamentary caucus were no longer entitled to funds from the 25 percent share of the subsidy. In other words, only the parties that managed to surpass the electoral threshold (4 percent of the popular vote in 1994, but 5 percent since) are eligible for this money. Securing election in a couple of individual constituencies is no longer sufficient. The bulk of the declared income of Hungarian parties comes from the annual transfers of money from the state budget. During the last decade or so, public funding for parties has tripled in nominal terms, although in real terms there was only a marginal increase (Enyedi and Tóka, 2001: 68–90). Owing to the volatility of the voters, parties can find themselves in a very different financial situation before and after an election. For example, in 1997 Fidesz–MPP (at that time a small opposition party) received 159 million forints from the budget, while in 1998 (when, following the election, it was the largest party in the governing coalition) it obtained 377 million forints.

Parliamentary caucuses are also subsidized. Each one receives money to hire experts. This sum is twenty times the basic salary of an individual MP. In addition, for each member a party receives 25 percent of an MP's basic monthly salary if the party is in government and 50 percent of that salary if it is in opposition. In 1990, the basic salary was 33,000 forints monthly, meaning that each caucus received at least 66,000 forints per month. For a strong party in opposition with 25 percent of the seats, the actual sum was more than 2 million forints per month. Ten years later, for the same party this "expert money" totaled 10 million forints monthly. In both cases, this sum represents a small fraction of the money received from the state budget by a party's headquarters: The ratio is approximately 1 to 60. Moreover, it is difficult to establish whether the money spent by the caucus is for the exclusive benefit of the "party in public life," since some of this money goes to experts working for the "party's central office."

Individual MP's receive additional financial support from the state. While salaries are not particularly high, the various allowances, compensations and reimbursements add up to a more impressive sum. In 2000, for example, travel allowances tripled compared to the previous year. For those MPs living more than 200 kilometers from work, the allowance increased that same year to 225,000 forints per month (160 percent of the basic monthly salary, which at that time was 150,000 forints). However, even those MPs living in Budapest received 100,000 forints for travel, and this money was tax exempt. Being a member of a single committee entitled an MP to an extra 56,300 forints; moreover, he or she can claim up to 70,000 forints for accommodation and another 70,000 forints for a secretary. If we add to the equation the fact that a quarter of the 1998–2002 Parliament served as municipal representatives as well, the real financial situation for Hungarian professional politicians is less unattractive than may appear at first sight (Bodnár, 2000).

As we have seen above, MPs have seemed less interested in increasing subsidies to the parties than in improving their own financial positions. Occasionally, though, they have joined forces, even against the government. In 1997, the Ministry of Finance proposed to boost the subsidy by 13 percent, while Parliament voted through an increase of 29 percent. However, when in 1999 the Free Democrats proposed a radical increase in the state subsidy, they found little support from their fellow-MPs.

In addition to the money made available for the operation of the party apparatuses, the support given for electoral campaigns must also be regarded as a direct subsidy. During an election year, the Ministry of Finance distributes an additional 100 million forints among the candidates. Depending on the number of nominations, this translates into around 25,000–30,000 forints per candidate. For a large party this amounts to not less than 10 million forints. Compared to the real extent of electoral expenses, this amount of money is ridiculously low, but is symbolically important in that it places all candidates on an equal footing. Large parties also benefit from their receipt of money for candidates running on the various party lists.

Table 2

The Incomes of Hungarian Parliamentary Parties in Millions of Forints,
According to Their Published Budgets, 1990–1999

	MDF	SZDSZ	Fidesz	MSZP	MIÉP	FKGP	KDNP
Total							
1990	320.1	224.8	76.4	297.8	0	96.5	65.1
1991	262.2	212.6	84	715.4	0	92.8	53.3
1992	430.3	251.7	171.7	416.4	0	142.3	117.6
1993	1266.7	301.1	938.7	444.2	0.5	191	152.8
1994	850.8	517.3	933.3	894.5*	21.3	164.7	170.4
1995	1018.5	218.2	542.7	958.4	15.6	127.6	105.9
1996	327.7	296.1	316.5	843.9	20.9	174.2	135.9
1997	306.4	348.7	164.2	964.9	27.9	296.7	190.8
1998	264.9	913.2	739.6	1328.1	131.2	369.3	313.6
1999	123.8	316.2	587.9	1038.5	225.8	388.7	172.7

Source: Juhász (2001) and the author's own calculations

1.7.2 Indirect Funding

Of the benefits accruing from forms of indirect funding, those derived from patronage systems should be mentioned first. In Hungary, elections have been followed by changes in personnel not just at the top of the ministries, but also at the heart of cultural institutions, public media, public corporations, the civil service, and so forth. After 1990, MPs of the government parties had a number of well-paid positions in the managements or on the supervisory boards of state companies. Law V of 1997 forbade MPs to occupy leading positions on the boards of enterprises controlled by the state or by municipal authorities, but allowed them to remain owners of companies co-operating with, or even partially owned by, the state.

During the election campaign, parties receive state support that goes beyond the abovementioned direct financial transfers. They receive free airtime on state-owned television and radio. The Electoral Law stipulates that during the campaign period the local, regional and national public media must broadcast without charge campaign films by parties with regional or national lists as well as by local candidates. Such broadcasts must be provided for each of the parties and candidates on at least three occasions: at least once during the main campaign period and again two days before each of the two rounds of voting. Parties also pay reduced prices for advertisements on national television and radio stations. During election campaigns parties also benefit by not having to request special permission to produce posters, billboards, leaflets and so on.

Youth and women's organizations affiliated to the parties can benefit from state support in their own right, provided that they enjoy formal autonomy.

1.8 Reporting and Disclosure

Parties are compelled by the Party Law to publish their annual budgets every spring in the National Gazette. Originally, the various types of income were broken down into a large number of categories. Parties had to separate the money they spent on such things as staff, elections, general functioning, and so forth. However, parties interpreted the categories differently. For example, some regarded money spent on campaign offices as belonging to one category, while other parties assigned it to another (Juhász 2001: 20). Since 1993 the number of categories used in the reports has been reduced. Now there is less uncertainty, but the categories have become so broad and general that the reports convey very little concrete information. It is not possible to determine from the reports how much was spent on office space, salaries, and so on.

Also, the amendment of December 1992 somewhat reduced the State Audit Office's ability to exercise supervision by requiring parties to publish their reports only every two years. According to the law, the names of inland donors giving more than 500,000 forints annually, and of donors abroad giving more than 100,000 forints annually, must be published in the financial declaration. But usually the names of donors remain unknown, since they make their donations by way of intermediaries, typically foundations.

The State Audit Office frequently complains about the inadequacy of the reports. Since the parties routinely modify their financial declarations following critical comments from the Office, it can take two or three years before a final, correct report is published. This is a serious problem, since the difference between the original and the corrected financial declaration can often be considerable. According to Fidesz's first report in 1999, the party closed the financial year 1998 with a surplus of 93 million forints, while according to the corrected report it had a deficit of 300 million forints.

The Electoral Law of 1989 obliged parties to publish their campaign budgets in the press, but since there were no deadlines or sanctions in the event of non-compliance, they did so only rarely (Juhász 1996). Law C of 1997 specified that the reports must be published in the National Gazette within sixty days following a parliamentary election. (The law does not cover local elections.) Also, within one month of a parliamentary election the parties, or more precisely the candidates, must report to the Ministry of Finance their spending of the sums received from the state for the campaign. These deadlines for reporting seem to be unrealistically short, since many bills do not reach the parties until months after elections (Tall ...).

Candidates are not allowed to spend more than 1 million forints on a campaign. Those who exceed this limit must pay twice the amount of the excess into the national budget. In this way, electoral expenditure has since 1987 been limited to 386 million forints per party. In reality, things are very different. According to Juhász's estimates (Juhász 2001: 58), the campaign spending of individual parties can reach 1 billion forints. The large parties report spending approximately 700 million forints on "political activity" in years in which parliamentary and local elections take place. My interviews with party officials indicated an even higher sum, one close to 2 billion forints, i.e. five times the official figure. The differences between these figures stem partly from the fact that it is very difficult to establish what actually qualifies as campaign expenditure. In the official reports, the parties account only for the sums spent by their central administrations on electoral advertisements and exclude, for example, spending by the candidates themselves.

The relevant laws do not regulate “support in kind” even though, as indicated above, this constitutes a large part of campaign finance, especially in local elections. One possible solution is explicitly to forbid, for example, the production of party posters by actors other than the parties themselves (Tall ...: note 10).

1.9 Enforcement

Political parties are granted considerable financial autonomy in Hungary. The state administration is forbidden by law to follow the finances of parties. The head of the State Audit Office is elected by Parliament and is responsible to Parliament. The Office checks the accounts of the parties every two years. If, for some reason, it intends to carry out additional investigation, it must warn the party in question one month in advance. If the Office discovers an anonymous donation or illegal economic activity, the party at fault must pay the sum at issue into the state budget, and the same sum will be deducted from the party’s next annual state allowance.

The powers of the Office are very restricted. If it discovers mistakes in the reports, it can ask the parties to publish corrected versions. In other words, there are no real sanctions for bad accounting practices. The Office is not able to investigate the identity of donors and it has no means of conducting investigations of financial partners of the parties. In extreme cases, the State Audit Office can ask the public prosecutor to launch an investigation.

1.10 Scandals

While minor violations of the law—e.g. subletting state-owned offices—are often detected and pointed out by the State Audit Office, there have been few major or damaging financial scandals in the history of the Hungarian parties. One common denominator of all these scandals is that no party official has ever been sentenced because of a party-financing scandal. .

The first big scandal involved the MDF and Fidesz. These parties—the former was in government and the latter in opposition—co-operated to make the most of the law providing parties with office space. The MDF-led government gave the parties some particularly valuable buildings, which contained relatively little office space. The parties, for their part, had no intention of using these buildings as offices and soon sold them for a high price. A state-owned bank then bought the most valuable one for 1.5 billion forints. Here, the spirit of the law was clearly violated, but no actual infringement of the regulations was detected.

In 1996, officials of the then government parties (MSZP and SZDSZ) allegedly demanded a large sum of money for helping a lawyer obtain a lucrative contract with the privatization agency. The case was brought to court.

In 2001, SZDSZ was accused of financing its 1998 campaign illegally. The charge was that the party had spent more than it was permitted on the campaign, receiving loans via companies with links to the party. No sanctions followed, since in theory a party can take up loans in an election year independently of the election campaign, and unless a party admits that there is a link between these loans and the campaign, the State Audit Office has no right to investigate.

While in most cases there were no legal consequences, the parties often paid dearly for their involvement in these affairs. In 1993, the vice-chairman of the Fidesz said that the party’s deeds raised “only moral” rather than legal questions. In the following year Fidesz had

to learn, as the SZDSZ had to four years later, that loss of moral standing can turn a large party into a small one very rapidly.

Politicians from various factions proposed radical reforms in 1999. They advocated a dramatic increase in state financial support, more opportunities for parties to operate enterprises, stricter limits on private donations, tighter public control over party budgets, and the provision that donors should account for the source of the money they are donating. But such wide-ranging reforms would require a two-thirds majority in order to be passed. In the currently polarized party system it has proved impossible to create the consensus necessary for this.

2. Analyses of the Party-Funding Model

The above description demonstrates the major advantages and disadvantages of the Hungarian party finance model. Of the disadvantages, the following deserve mention:

- The parties rely too much on the state.
- The official limits on campaign spending are unrealistically restrictive.
- The categories used in the financial reports are too broad and not specific enough.
- The State Audit Office possesses insufficient information to check the validity of the figures reported and has no real means of punishing the wrongdoings of the parties.

Among the advantages of the system, the major ones must include the following:

- Parties have an obligation to report their income and expenditure to the public.
- Party politics is not under the control of wealthy economic actors.
- The threshold for gaining access to state support is not particularly high; therefore the system is relatively open.
- The model does not automatically help splinter groups and thus helps consolidate the party system.
- An equality of opportunity exists, and the regime of state support marginally favors opposition parties.

The last advantage requires qualification. For various reasons, the term “equality of opportunity” does not always apply. Originally, the MSZP was the privileged party. As the legal successor to the former communist party it was by far the richest party in 1989, when its wealth was estimated to be around 7 billion forints (Tall ...: 13). By the end of the decade this advantage over the other parties had diminished, although it still existed.

Opposition parties are, of course, always disadvantaged by their limited access to the patronage system. But there is another potential danger for non-governmental parties. State finance is automatic in theory, but not necessarily so in practice. In 1992, Minister of Finance Mihály Kupa withheld the money due the FKGP, claiming that because of the splits and the legal battles between the various sections, it was not possible to determine which grouping represented the party. In 1994, the government delayed payment of every party’s money for a couple of months (Tall ...: 14).

In 2002, history repeated itself in a peculiar way. For several months, the finance minister refused to pay the annual subsidy to the KDNP, using the same argument that his predecessor in 1992 had employed, namely that the litigation pursued by the various groupings made it impossible to determine the legitimate leadership. The courts finally settled the question in favor of the party, but the money was still not transferred, although this time for a different reason. In the election of 2002, a number of small parties, including the KDNP,

decided to co-operate. The old parties were not dissolved, but a new one, called the Center Party (Centrum), was created. The leaders of the old parties joined the new party, retaining membership of the old. According to the finance minister, the KDNP ceased to exist when its leaders joined the Centrum. Ironically, the politician most affected by this governmental maneuver was Mihály Kupa, by this time leader of the Centrum.

These examples show that despite universal and fair legal regulations, in special circumstances the government can exploit its position as executor.

Conclusion

Many deficiencies have been listed above concerning the Hungarian party finance system. Of course, most are not unique to Hungary, and, comparatively speaking, Hungary can be said to have a party finance regime that functions relatively smoothly. But the lack of progress over the last twelve years or so in achieving greater transparency presents the “consolidation of democracy” project in a gloomy light. At the same time, the fact that the Hungarian financing system is relatively open to new parties and that the parties are largely autonomous vis-à-vis specific individuals and companies counts as a major plus for the regime.

The most important task of legislators is to establish realistic limits and deadlines, and to give greater room for the State Audit Office to maneuver. It may well be equally important to reform party politics from the inside, placing more emphasis on members and relying less on state subsidies. But this will be a very lengthy affair, if indeed it ever gets started. In the short run, legislators must be able to deal with the tension that results from the fact that while campaign finances are severely limited, parties can collect and spend as much money as they wish. Since parties need money in order to gain office, it should come as no surprise that they always look for ways to channel their financial resources into election campaigns.

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