



# Party Law in Modern Europe

The Legal Regulation of Political Parties in Post-War Europe

**The financing of parties and its impact on their transformation from institutions of social representation to institutions of state legitimization.**

**The case of Greece**

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The Legal Regulation of Political Parties

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## **Introduction**

The establishment of the financial support of political parties by the state was historically considered as a means of fighting political corruption and scandals, reducing or even eliminating the dependence of parties on selfish economic interests (van Biezen 2004, p. 703 & 707; Arnim 2004 p. 83). For constitutional theory, public support for parties was necessary in order to ensure both the unimpeded exercise of the parties' constitutional functions and fair party competition (Drosos 1982; Tsatsos 1982; Nassmacher 2009, p. 292).

The regulations governing public financing belong to the broader field of regulations that concern the function of political parties and, especially, their incorporation into the normative legal-constitutional realm. In particular, party funding constitutes one of the most significant issues involved in the function of political systems. It lies at the heart of a serious transformation that has taken place during the last two decades concerning the form of political parties and, more specifically, the process of their (total or partial) mutation, from bodies of social representation into institutions for the legitimization of public policies in society. In Greece, and in the environment of 'professional politics' that has been organized in recent decades and that weakens modern parties as 'voluntary unions of citizens', transforming them into a kind of 'corporation', state financing is essentially the element that preserves parties financially. In other words, it is the institutional guarantor of the dependence of the parties on the state and, moreover, a crucial instrument for the centralized control of the political system. Through funding and the economic centralization that is imposed, organized disagreement within the parties is asphyxiatingly restricted, while the capacity to set up and develop alternative parties is largely prevented. A large part of society and the electoral base is pushed out of parties, to the degree that the latter increasingly tend to search for resources in the state, rather than in society. The state budget undertakes to support the parties, as it does with every other special state mechanism (education, police, the army, justice, health, etc.).

The proponents of the establishment of public party funding believed that this would constitute a mechanism for the consolidation of popular sovereignty, since it would secure (or at least would be supposed to secure) free party competition under fair conditions. This is so, because "the private funding of political parties is directed

from economic forces towards the party or the parties that hold or are about to hold the majority of votes. The state machinery operates in favor of the ruling party” (Tsatsos 1982, p. 245). This opinion articulates the argument that public funding would ‘protect’ the parties from dependencies on private economic interests that are dangerous for the system of government, while it would also consolidate equality in political competition, thereby deepening democracy.

Unfortunately, the course of events did not justify such a ‘democratic constitutionalism’. Public funding not only did not obstruct relations between parties and private economic interests but, on the contrary, multiplied them. *First*, because public funding, increasing year after year, enlarged constantly the functional needs of the parties, thereby rendering public support insufficient. Thus, the more the functional needs broadened, the more the resort to private capital was strengthened. Finally, an oxymoron appeared, since the growth of the dependence on private interests went hand-in-hand with the growth of public funding. *Second*, the evolution of parties into the sole bodies for the planning and realization of public policy rendered them institutional mediators between the state and economic interests. Such a crucial placement within the system of power, during the neoliberal conjuncture of the last twenty years when the policies favoring a diminution of the state and a strengthening of the role of the markets became dominant, rendered the parties an epicenter of institutional corruption. Several big economic scandals after the 1990s in the US, France, Germany, Italy, Belgium, Japan, and of course Greece (with the Siemens affair as the leading case), all pointed to the ruling parties as the privileged space for the development of relations between economics and politics, and the submission of the latter to business interests.<sup>1</sup>

Public funding had another serious consequence for the structure of the parties and, more specifically, for intra-party democracy. Increasing public funding came to strengthen even more party centralism and the trends towards further autonomy (financially as well) of the party’s ‘ruling order’. This occurred exactly because public funding was directed solely towards the top (i.e. the leaderships) of the parties - and

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<sup>1</sup> In the Greek case, this ‘reality’ was legalized *a posteriori*, as is usually the case with the legal system, by Law 3023/2002. While state funding was initially introduced in order to avoid the establishment of relations between parties and private capital, this law acknowledged and regulated the exact opposite: “The funding of political parties must remain public and private. The legislator must ensure a balance between these two sources of funding [...]. The abolition of private funding would render the parties ‘dependent on the state for their subsistence’ and would distance them from society and the citizens” (Explanatory Report of L. 3023/2002).

was not diffused in its organizational pyramid - while at the same time, no right to control party finances was assigned to mere party members or party organizations. Therefore, through public funding the party was not strengthened as a 'collective organization' (e.g. the presence of the party in an area or the development of grassroots social initiatives, which would strengthen the social materiality of the party and would offer its regular members the opportunity to participate to a much greater extent in party life), but rather as a 'bureaucratic mechanism'. Gradually, an administrative-clerical (party) bureaucracy was being consolidated, which began to act and think as an independent interest group. In fact, this acted as a catalyst for the transformation of parties (ruling parties, in particular) into de-ideologized entities, without a political plan and, definitely, without a criterion of effectiveness for the public interest.

In this study, the regulatory framework of the (private and public) financing in Greece is examined and the effects of the latter on the form and the function of the political parties are noted. The core theoretical trajectories of the concept of the political party as well as the involvement of their financing in the making of the party form that was historically imprinted have been presented in more detail in Vernardakis (2012). Let us view them in brief.

The 'political party' in post-war Europe of the extended social state is the outcome of a balance between 'representation' and 'legitimization'. The concept of the political party is founded on the formation of two more specific notions: a) relations of representation and b) relations of legitimization. The first concept ('relations of representation') approaches the process of the founding-formation and reproduction of the 'representational element' of parties based on the historical analysis of each specific period and each specific historical formation. The second concept ('relations of legitimization') describes the process with which a political party is incorporated into the institutional context of the state and either attempts to set up its relations of representation as 'state policy', or subjects the relations of representation to the state, essentially functioning as a vehicle for the legitimization of state policies within society through the exploitation of its mass dimension. These two concepts refer to the circumstances under which the party phenomenon emerged and evolved. Parties were born and developed as subjects for the entrance of the masses at the epicenter of the political process, expressing great social divisions and demands

(process of the organization of representation) (Weber 1959; Duverger 1976; Lipset & Rokkan 1967). In the post-war decades, however, they evolved into institutional tools for the 'limitation' of the masses in 'given contexts', in order to serve concurrently the function of political representation and the registering of (certain) social interests in the state, as well as the reproduction of the given socio-political system and its extended political legitimization. Some approaches place emphasis on the analysis of parties as institutions of mediation between the society and the government-state (Lawson 1976; Sartori 1976), others on their function as institutions of 'interest harmonization' in the context of governance (Almond & Powell 1967; Scarrow 1996).

However, this balance starts to gradually crumble from the end of the 1970s onwards. The neoliberal ideologies win the battle of ideas, initially within the parties of the Right and Centre-Right, and later also within the wider reformist Left. The ideas of social protection and solidarity, public interest and state intervention in general start to sound 'old-fashioned'. Within a context of theoretical and political redefinitions, the social-democratic party family transforms into 'Centre-Left' or 'Euro-Left'. On the other hand, the conservative Right detaches itself from statist 'conservatism', opens itself to the 'new ideas' of the market and is dominated by the 'neoliberal Centre-Right'. Gradually, a broader consensus is built in the field of economy and state policies; one of its immediate effects is the tendency of polarized party systems to be substituted by centripetal ones, following the notion of Sartori (1976), and the tendency of old centripetal systems to become even more consensual and with greater convergences between the ruling parties.

Thus, gradually, the political parties of the later period - the period that begins after 1989 - cease to be the outcome of the balance between the two relations and function unilaterally as a component of the process of political legitimization of the policies of the state, a state whose character and function also gradually change. Needless to say, this transformation of the political parties does not occur abruptly. In studying his contemporary party phenomenon in the mid-1960s, Kirchheimer (1966) foresaw the ideological convergence of the ruling parties and their effort to function more as organizations supplying the electoral market with a political program, rather than as collective intellectuals seeking to unify a bloc of homogeneous (converging) collective interests. The 'ideological formation' type of party was being gradually replaced by the 'inclusive' type of party with lax and contradictory ideologies as well as with 'flexible' political programs.

Panebianco (1988) extends the observations made by Kirchheimer, focusing more on issues of functional organization of parties and stating that contemporary ruling parties differ from typical 'mass parties' (i.e. the somewhat older parties) in their dependence on 'politics professionals', the use of new forms and techniques of communication and the strengthening of the role of their leadership, which becomes more and more autonomous from the 'base', its processes and its ideologies. Consequently, he claimed that the term 'electoral-professional party' is preferable to - or more complete than - the term 'inclusive party', because it places emphasis on the 'professional' (as opposed to the previous 'volunteer') characteristics of the party and underlines the basic, formally organizational difference between the old 'mass party' and the respective new party form.

There are two important elements in all of the aforementioned theoretical approaches to the party phenomenon. First, a critique - or, an overcoming of Duverger's theoretical scheme with respect to parties ('cadre parties / mass parties') - is founded, based on the evolution of the party phenomenon in a different context, that of the incorporation of political representation. Second, the 'mass party' begins to be understood as a 'tool' for the function of the political system and especially for the 'provision' of legitimization, a position later elaborated by the theory of the 'cartel party'. In other words, a 'type' of party is formed that ends up surviving only as a 'state body' because, due to the recession of the element of social representation, it is impossible for this party to perform its main 'regime' function, i.e. the articulation of interests in the context of the state (Almond & Powell 1967).

Indeed, the 'instrumentalization' of the party was the main process of transformation of a representative collective structure, as was historically the emergence of parties. The 'party' as a functional tool of the state mechanism is a catalyzing development in the history of the forms of representation in contemporary bourgeois democracies. The effect on party structure and on the political function of (party) organization is observed in many variants: concentration of party power, reduced qualitative and quantitative participation of the party base and restriction of its range of influence, political autonomization of the top levels, impermeability of the party space within which decisions are taken, top-down control of the political personnel who are called upon to staff party and state structures, and economic dependence on the state.

This reality is described by the notion of ‘cartel party’ of Katz and Mair. The ‘cartel party’ is a ‘mass state party’ but, apart from that, it is also a system of ‘similar parties’ that control power and the political system, imposing some kind of ‘political representation cartel’. The ‘classic mass party’ is a party of social representation, i.e. a party of civil society (Katz & Mair 1995: 8). On the contrary, the ‘state mass party’ or ‘cartel party’ is a party that strictly moves within the context set by the state and is characterized by state-party interpenetration (Poulantzas 1982, pp. 334-339; Katz & Mair 1995, p. 17). The direction of the two ‘party types’ is reverse: the first type moves ‘bottom-up’, while the second moves ‘top-down’. This type of party is based on the de-ideologized and politically fluid social alliance between diverging interests, which characterizes the ‘inclusive’ or ‘electoral-professional party’. It is also directly connected to the ‘undifferentiated party system’, a party system without contradictions, or at least without serious fundamental contradictions, given that its motion is characterized by the convergence of the policies of the power poles.

However, before we proceed with the issues that concern the regulation of financing, let us discuss briefly certain issues with regard to the broader legal-constitutional regulation of parties. In Greece, the ‘political party’ was recognized for the first time as a constitutional institution by the constitutional legislator of 1975 (Article 29). The 1975 Constitution articulates a basic framework for the organization and action of the parties, recognizing institutionally the role of the ‘party’ in the broadening of the legitimacy of the state and its policies. However, apart from the reference in Article 29 of the Constitution, according to which the political parties ‘are obliged to serve the free function of the democratic political system’, the legislator did not proceed with any further regulation of the internal function of the parties or with any kind of limitation based on their ideological positions. This fact reflected a very liberal ideological correlation of power, which firstly imposed on the relevant scientific debate the view that the state must regulate and interfere with the intra-party functions as little as possible, respecting the property of parties as institutions of ‘social autonomy’. This is the reason why up to now there have been no limitations on the founding and activities of political parties, and no legal provisions over the regularization of their intra-party operation. Provisions on the legal status of parties in



Greece concerned their financing and the level of their electoral expenses only, as well as the level of the electoral expenses of prospective members of the parliament.

### **1. The legal and institutional context concerning party financing.**

Historically, the first political parties were financed exclusively by their members. Public financing was institutionalized in post-war decades, while in Greece the first institutional arrangement can be found in Law 1443 of 1984. The capacity for the legislative protection of public funding of parties was already foreseen by the 1975 Constitution<sup>2</sup>, yet it took another nine years for the first related law to be voted.

The nine-year delay in the legal regulation of party funding, despite the general constitutional provision, was due to the fact that the parties could in general fulfill their financial obligations, based on the contributions of their members and supporters. These contributions came about in two ways: a) with the ordinary monthly contribution of the members (it should be noted that the period 1974-1984 in Greece is a period of intense participation in the internal life of the parties) and b) with the regular (yearly or half-yearly) economic campaigns, where friends and supporters contributed various sums of money.

This type of self-financing explains why the first regulatory Law of 1984 concerned primarily the state financing of the *electoral expenses* of the parties, which was directed only to the parliamentary parties of the Greek Parliament<sup>3</sup>, in proportion to their electoral result in the previous elections.

More generally, the state financing of the parties usually takes three combined forms. To begin with, it may be offered as compensation for a part of the party expenses incurred (granting of state money for a specific and actual expense). This form 'respects' the party as a voluntary non-professional structure and is limited to the financial assistance towards a 'social institution'. It may also be granted as support for

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<sup>2</sup> The 1975 Constitution provided merely the *capacity* of the common lawmaker to establish public funding: 'A law may govern the financial support of the Parties by the State and the publicity of the electoral expenses of those Parties and the candidate parliamentarians' (art. 29.2). With the 2001 Constitutional Amendment, an *expressis verbis right* of the parties to receive financial support by the State appears. Moreover, while the 1975 Constitution set a capacity to fund only electoral expenses, the 2001 Amendment introduced to the Constitution the funding of both the electoral and the operating expenses of the parties, which had already been provided for by the successive laws on financing.

<sup>3</sup> Back then, only three political parties were represented in the Parliament: the ruling PASOK, the ND (centre-right) and the Communist Party of Greece (KKE). The electoral law at the time did not provide for an electoral margin to enter the Parliament, but was characterized by great disproportionality (a system of reinforced proportionality that offered more seats to the parties that exceeded the limit of 17% of the votes).

a specific party activity (electoral campaign, support for a party think-tank, initiatives by the party youth, etc. In this case, the party is assisted primarily as far as its political functions are concerned, maintaining a significant breadth of social autonomy. Finally, party financing may be provided as funding for the entire function of the party (operational expenses, salaries of the professional party apparatus, rents, etc.) (Nassmacher 2009: 300-302). In this case, the ‘professionalization’ of the party is implied, together with its dependence on exogenous factors, and the almost absolute restriction of its social autonomy as a representational institution. As we shall see later, the Greek lawmaker opted eventually for a combination of the two latter forms, after a series of consecutive changes in the law. The level of state financing is determined as a percentage of the following year’s budget estimate, rather than on the basis of actually incurred expenses.

Let us see in more detail the successive institutional framework of party funding.

### **1.1 The Law of 1984**

The key development brought about by Law 1443/1984 was the institutionalization of the annual financial support of parties by the state in order to cover their *electoral expenses*. The support was set to one per mil (1‰) of the regular revenues of the state budget in the respective electoral year.

Furthermore, this law made provisions for the private funding of parties, which could be anonymous provided that the individual contribution did not exceed 200.000 Greek drachmas (approx. 600 Euros). Political parties were obliged to maintain account books and publish their balance sheets in two Athens-based newspapers, while there was also a provision for a control of the balance sheet by a bipartisan parliamentary committee and the application of sanctions by the President of the Parliament (suspension of state funding for one year) in the case of violation of the appropriate obligations of the parties.

In practice, this first Law recognizes the mass foundation of the parties of that era, without interfering with their social and administrative autonomy. By viewing parties as ‘democracy’s children’, it institutionalizes the funding of their electoral expenditure, introducing certain rules of transparency in an effort to protect them from the financially powerful circles. This is an era that corresponds to the ‘polarized two-partyism’ of the Greek political system, and to the period of 1981-1996 in particular.

This period extends from 1981 (rise of PASOK to power) until 1996, a period in which the two main ruling parties, ND (Centre-Right) and PASOK (Centre-Left) form competing relations of representation with different ideologies, social alliances and party strategies, setting the boundaries of a ‘polarized two-party system’. Political parties tend towards the form of ‘mass party’ and the element of legitimization prevails over the element of representation. The shaping and development of a typical ‘mass party’ organization by the party of the Greek Centre-Right, ND, contributes decisively to the evolution of this form of party. After 1981, ND places emphasis on its organization and incorporates all kinds of ‘left’ organizational-party ideal-types (base organizations, pyramid-like hierarchy, sectoral organizations, trade-union party groups, etc.), having established from the start the character and structure of the ‘bureaucratic mass party’ where political top levels are separated and autonomous while mass presence is utilized as a mechanism for the social legitimization of the key choices.

## 1.2 The Law of 1996

The Law of 1984 was replaced by Law 2429/1996, with which the annual public funding of the parties was divided into *the regular* and the *electoral* one. The regular one reached 1.2‰ of the regular revenues of the state budget in the respective year. Respectively, the electoral funding reached 0.5‰ of the regular revenues of the state budget in the year of the elections, and this sum was to be granted each time national and European elections took place.

Moreover, the annual financial support to the parties for research and educational purposes was institutionalized, equaling 0.1‰ of the regular revenues of the state budget.

Therefore, in the case of elections, the sum of public funding could in total reach 1.8‰ of the regular revenues of the state budget.<sup>4</sup> The control mechanisms remained the same as those provided for by the 1984 law.

The extension of financing to the operational expenses of the parties expresses the gradual transformation of the parties, particularly of the two large ruling parties,

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<sup>4</sup> The aforementioned rates of public funding were later reduced with clauses that were inserted in various later laws: with article 15, par. 1 of L. 2469/1997 by 7.5% from 01.01.1997 onwards, and a further 7.5% from 01.01.1998 onwards, i.e. to 1.54‰ of the regular revenues of the state budget.

into powerful professional bureaucratic structures. The following Law of 2002 completes and normalizes this transformation.

### **1.3 The Law of 2002**

The Law of 1996 was replaced by Law 3023/2002, which is still in force with certain modifications that were introduced in 2003 and 2004. This law, in its current form, provides for the following: a) regular annual public funding was set to a sum up to 1.02‰ of the regular revenues of the budget; b) electoral funding was initially set to a sum of up to 0.22‰ of the regular revenues of the year in which the elections are held, and after Law 3242/2004 to a sum of up to 0.35‰ if more than one national or European election is held in the same year; c) financial support of the parties for research and educational aims was kept at the level of Law 2429/1996, i.e. equaling 0.1‰ of the revenues of the regular budget. From all the above, it can be concluded that according to the existing law, the sum of public funding may reach up to 1.47‰ of the regular revenues of the state budget, if more than one election is held.

Regular public funding is supposed to cover the operating costs of parties or party coalitions. Out of it, 80% is distributed among the parties and party coalitions that are represented at the National Parliament<sup>5</sup> in proportion to the number of votes that they got, 10% is given equally to the parties and party coalitions that are represented at the European Parliament<sup>6</sup>, while 10% is given equally to the parties and party coalitions that have submitted full catalogues of candidates until the national elections, the latest, in at least 70% of electoral prefectures and received at least 1.5% of valid votes at the national level.<sup>7</sup>

The 2002 Law extended the legal framework of private funding, but also regulated a series of other issues:

a) With respect to private funding, a limit of 15,000 Euros was set for funding by the same person per annum. There was an additional provision, according to which sums of money up to 600 Euros per annum can be donated anonymously while, contrary to what was in effect until then, the funding of parties and candidates by legal entities governed by private law was totally banned. Moreover, the law stated that at least 80% of the total annual revenues and expenses of the parties must be

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<sup>5</sup> Since the early 1990s, the electoral limit for entering the Parliament has been set by the electoral law at 3% of the votes. This limit is valid up until today (April 2013).

<sup>6</sup> A system of simple proportionality is in force for the representation at the European Parliament.

<sup>7</sup> Ar. 3 of L. 3023/2002.

handled through bank accounts. In the previous laws, there were no provisions and limitations concerning private funding.

b) With respect to the pre-electoral publicity of parties and parliamentary candidates, the law provided for an obligation of private and public broadcasting media to publicize the messages of political parties during the electoral period for free. Up until then, no such obligation on behalf of private and public media had been foreseen. This clause constitutes a form of support in kind, or indirect funding of the parties.

c) For purposes of publicity of the political parties and the parliamentary candidates, a provision was introduced that obliged the parties to maintain a special book where all revenues and expenses are registered compulsorily, according to categories and separately for each year, while the parties are also obliged to publish their balance-sheets and a special report of electoral revenues and expenses. Furthermore, as far as private funding is concerned, all donations that exceed 600 Euros must be registered by name in the special book of revenues/expenses of the parties, while in every case the counterfoils of the coupons and cash receipts are numbered and authenticated by the Audit Committee in charge.

d) The auditing of the finances of political parties and parliamentary candidates is assigned to an Audit Committee, according to the provisions of article 29 of the Constitution. This committee, chaired by a vice-president of the Parliament, initially comprised only parliamentarians, while later a 2003 law inserted three judges in the committee's composition (one member of the Council of the State, one member of the Supreme Court, and one of the Court of Audit), without however assigning the majority of the committee to the non-parliamentary committee members. The Audit Committee is assisted in its work by a special service of the Parliament. The committee assigns the drafting of accounting or economic expert reports, or other auditing acts, to certified public accountants who examine the books and receipts of the parties and draft a detailed report that is submitted to the committee.

e) There was, finally, a provision for penalties against parties, parliamentary candidates and parliamentarians in cases where the allowed expenses during a pre-electoral period were exceeded. For parties, penalties include fines and retaining of public funding, while for individuals these may even involve deposition from the parliamentary office.

The distance between the first law in 1984 and the last one in 2002 is long. The first law spoke about financing the *electoral expenses of the parties*. Gradually, however, public financing extended to the parties' entire operating expenditure, both during the parliamentary tenure and the electoral campaign: '2. For the application of the clauses of the present law, the sums spent for the fulfillment of any of the party's needs during the parliamentary period as well as during the electoral campaign are considered as expenses of political parties and coalitions. 3. The expenses of political parties and coalitions are divided into operating and electoral ones' (art. 5 of Law 3023/2002). Questions such as how much the operating expenses of a party are, how much they should be, how their level should be decided upon, as well as whether there is a maximum limit that they can reach and what that limit is, are not answered by the legislation governing state financing.<sup>8</sup>

The 1996-2010 period - which includes the two latest Laws - is the period of the definitive shaping of converging two-partyism and the form of the 'cartel party' in the Greek party system.

It is the period in which a convergence of the two ruling parties is achieved, with respect to the form and essence of governmental policies as well as to their politico-organizational forms. It could be described as the era of a consensual or converging two-party system, characterized by the transformation of ruling parties into 'state parties' and of the political system into a power cartel of two 'political monopolies'. Ruling parties are definitively disassociated from their party base and, more broadly, from the social relations of representation on which they were formed. They are entirely transformed into subsystems of the State and of its organic policies. We may call this period the period of 'the crisis of party democracy'.

## 2. The study of the published balance sheets

The issue of financing and the economic resources of parties constitutes one of the most critical ones surrounding the function of contemporary political systems. As mentioned in the introduction, *state financing* constitutes a powerful indicator for measuring a party's dependence on the state, or the lack of it. *Private financing* - and we obviously refer to private financing from large-scale capital - constitutes a

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<sup>8</sup> For example, in 2002 the 'operating costs' of PASOK (personnel's salaries, transport costs of cadres, rents, general expenses etc.) reached almost 7.5 million Euros. In 2007, the same category of expenses reached 25 million Euros, i.e. it almost tripled. The same picture is observable in ND.

powerful indicator for measuring a party's dependence on capital. Finally, *financing from the 'party's society'* (members, friends, supporters, independent voters, etc.) constitutes a powerful indicator for measuring the social autonomy of the party.

If, theoretically, modern political parties are the outcome of the co-articulation of two dynamic and often opposing processes - social representation and the production of state policies - the sources for pumping out financial resources point to the direction a party tends to follow organizationally: whether it tends to become an institution of 'social representation' or a mechanism of 'public management' in favour of capital. The mechanism and the kind of financing define the character of a party: it is either a party of social representation, i.e. 'a civil society party', or a party defined by its relationship with the state and the joint credit dependence on it. (Katz & Mair 1995, pp. 8, 17).

Let us now see what the political parties of the period under study 'tell' about their financing and eventually about their party type, through the balance sheets that they disclose annually. According to legislation (art. 18, Law 3023/2002), the political parties that receive state funding are obliged to publish a balance sheet annually, during the first two months of each year, in at least two daily Athens-based newspapers. The drafting of the balance sheet must correspond to the rules and structures of the General Accountancy Plan and the relevant regulatory acts that govern its application.

Let us note first that the balance sheets of political parties in Greece are drafted unsystematically and do not reflect the parties' actual financial condition, not even approximately. In fact, what is found is not the balance sheet but rather a general registering of the party's revenues and expenses. The fact that there is neither double-entry bookkeeping with a detailed registering of the individual economic indicators (liabilities, cash flows, etc.), nor an independent audit report, renders the parties fully non-transparent organizations as far as the management of their party finances is concerned. The analysis of balance sheets concerns the period from 1997 onwards. This is so because the first law on financing, passed in 1984, referred only to the electoral expenses of the parties. After the passing of the 1996 Law, the distinction between electoral and operational expenses appears and, therefore, the drafting of the balance sheets acquires a much more complete accounting character.

From the study of the published balance sheets of recent years, it is observed that the parties' financial resources are generally drawn from five large categories: a) state funding, b) economic contributions / subscription fees of their members, c) bank loans, d) revenues from the exploitation of property or party companies - this is the peculiar case of the Communist Party of Greece (KKE), which is the only party that registers in its balance sheets small but notable revenues from 'property exploitation', and e) contributions by members of the parliament / European parliament and extraordinary economic campaigns. Out of these five categories, only the second one constitutes an indicator of social participation *per se*. Potentially, the fifth category could also fall under the banner of social participation as far as the segment of economic campaigns is concerned, yet this element is usually unclear since the category of 'economic campaigns' may mask large economic contributions by powerful (institutional or individual) actors.

Table 1 registers the share of public financing in the annual collected revenues of the parties. Bank loans are not included in the category 'collected revenues'; in balance sheets, loans are included in the more general category of 'revenues'.

**Table 1. Share (in %) of participation of public finance in the collected revenues of the main Greek political parties (1997-2010)**

<b>Year</b>	<b>PASOK</b>	<b>ND</b>	<b>KKE</b>	<b>SYN/SYRIZA</b>
1997	64.8	76.8	48.3	74.2
1998	–	80.0	50.0	78.5
1999	76.8	69.4	53.1	74.2
2000	83.5	64.7	58.6	82.6
2001	86.5	82.2	52.2	87.2
2002	79.1	63.2	50.9	82.3
2003	77.0	84.6	53.3	82.4
2004	n/a	72.4	63.4	85.1
2005	n/a	87.9	55.8	85.0
2006	92.6	90.5	56.5	59.0 <sup>9</sup>
2007	92.3	50.5	55.3	n/a
2008	88.2	92.0	n/a	n/a
2009	83.8	94.0	N	N
2010	93.4	96.0	65.0	58.0
<b>Average</b>	<b>83.4</b>	<b>79.2</b>	<b>55.6</b>	<b>77.1</b>
<b>Standard</b>	<b>8.2</b>	<b>12.9</b>	<b>4.9</b>	<b>9.7</b>

<sup>9</sup> The decrease of the share of state financing in the revenues of SYN in 2006 is fictitious, since a part that went to the other forces of the SYRIZA coalition has been deducted from the total calculated sum. So, while the total sum of public subsidy for 2006 reached 3,044.609.21 Euros, 456,691.38 Euros were absorbed by the other coalition members and 2.587.917,83 by SYN.



<b>Deviation</b>				
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*Source:* Data analysis of Published Revenues/Expenses Balance Sheet of the political parties by Ch. Vernardakis

The main conclusion that can be drawn is that three parties (PASOK, SYN, ND) are almost equally dependent on public financing. Even for KKE, this source accounts for the majority of its revenues.

Another such study in 1993 showed that the share of state financing in the total revenues of PASOK and ND for the period 1985-1992 reached an average of 45.3% and 45.4% respectively (Dretakis 1993a). For KKE, the respective share reached 12.6% while for the then unified Synaspismos (SYN, later SYRIZA) in the period 1989-1992 the share of public financing reached 35.2% of revenues. Compared to these percentages, one observes a doubling of the share of the state's participation for PASOK and ND, and a more-than-tripling for the parties of the Left (i.e. KKE and SYN/SYRIZA).

The following Table 2 presents the share of participation of organized members and party organizations in the total collected revenues of the parties. Here, as was the case with the previous table, the share is calculated based on 'collected revenues' and not on 'revenues' in general (which include bank loans as well). If the calculation were based on 'revenues', percentages would be much smaller, almost non-existent.

**Table 2. Share (in %) of participation of the party base in parties' collected revenues (1992, 1997-2010)**

<b>Year</b>	<b>PASOK</b>	<b>ND</b>	<b>KKE</b>	<b>SYN</b>
(1992)	(12.2)	(3.7)	(54.7)	(22.6)
1997	n/a	0.03	6.2	0.55
1998	n/a	0.02	n/a <sup>10</sup>	0.15
1999	10.6	0.01	3.7	0.12
2000	9.7	0.00	4.1	0.04
2001	2.5	0.01	2.0	0.00
2002	5.6	0.00	2.9	0.00
2003	5.2	0.00	4.8	0.00
2004	n/a	0.00	6.3	0.08

<sup>10</sup> In the 1998 published balance sheet of KKE, the sum that originates from 'contributions by members - party organizations' is not stated separately, but rather merged in a single category that includes 'contributions by members, parliamentarians, retired parliamentarians, and friends of the party'. In later balance sheets, the registering was differentiated according to each category.

2005	n/a	0.00	4.2	0.00
2006	1.1	0.00	5.9	n/a
2007	3.0	0.00	2.6	n/a
2008	1.4	0.00	n/a	n/a
2009	7.8	0.00	1.6	9.6
2010	2.5	0.00	2.0	12.4
<b>Average (1997-2010)</b>	<b>4.9</b>	<b>0</b>	<b>3.9</b>	<b>2.1</b>
<b>Standard Deviation</b>	<b>3.3</b>	<b>0</b>	<b>1.6</b>	<b>4.2</b>

*Source:* Data analysis of Published Revenues/Expenses Balance Sheet of the political parties by Ch. Vernardakis.

Data from the balance sheets shows that the growing economic dependence of political parties on state financing rendered members' participation entirely formal. As shown in Table 2, the participation of the organized party base in the finances of the parties is rather unimportant, if not virtually non-existent. Certainly, there is a (minor) share in party revenues attributed to the category 'economic campaigns'. However, it is not at all clear whether this category includes contributions from party members and supporters alone, or also contributions by economic actors, businesses, etc.

In any case, this development is contrary to the spirit of at least the initial party statutes.<sup>11</sup> Article 68 of the Statute of PASOK (1990) defines the following as economic resources of the party: a) members' subscriptions, b) extra-ordinary contributions by members, c) contributions by friends of the party, donations and inheritances that are only accepted after a decision by the party organs, d) proceeds from events and activities, and e) earnings from the annual renewal of the membership card. The fact that there is no reference to state financing is truly impressive. Article 51 of the Statute of KKE mentions state financing as the last resource; the order in which the various resources are stated is the following: members' subscriptions, corporate activities, donations and inheritances, sales of printed material, economic campaigns, deduction of a percentage from salaries and indemnities provided to elected public officials and, finally, state financing. Article 29 of the Statute of ND (as approved at the 3<sup>rd</sup> Conference in 1994) defines the regular resources of the party as follows: a) state financing, b) subscriptions of party members, parliamentarians and members of the European Parliament, and c) earnings from the party's property. Finally, the Statute of SYN (1992) sets the party's sources

<sup>11</sup> All initial Statutes of the post-1974 parties are found in Papadimitriou & Spourdalakis (1994).

of funding in the following order: a) subscriptions and contributions by members and friends, b) percentages from the salaries of MPs and MEPs, c) economic campaigns, and d) state subsidies. All parties declare in the relevant chapters that their resources come primarily from the contributions of their members and the economic campaigns that they wage from time to time. Furthermore, they define the notion of party membership in direct connection with the member's participation in support of the party. The fact that in 2000, the percentage of members' contributions reached zero, shows the divergence from the 'typical' form of the parties: from a social institution of representation (a tool of its members and volunteers that constitute it, corresponding to the 'typical' definition of the party), it is transformed through public financing into an institution of state dependence.

The limited economic participation of party members began to appear clearly (and to be noted) at the beginning of the 1990s. In 1992, as shown by the data in Dretakis (1993b), as presented in the early balance sheets of the parties that were published before the 1996 Law, the contributions by members of ND represented 3.7% of the party's total revenues. For PASOK, the respective percentage was 12.2%, for SYN 22.6% and for KKE 54.7%. The gradual limitation of the participation of the party base and the social-electoral base more generally in the financing of parties since the mid-1990s can be attributed to many factors the most significant of which is the completion of the transformation of the political parties, and primarily of the ruling ones, into institutions that are organically incorporated in the structure and function of the state. This development leads to a gradual decrease in the value of the participation of the party members in the running of the parties and the conversion of that participation into a tool for legitimizing the party-state elite (Vernardakis 2012).

We shall, however, note briefly the professionalization that is taking place within the parties (especially in the two ruling parties of the Greek two-partyism that was until recently reigning supreme), the increasing dependence of their resources on the state, and their weakening as organizations of social representation. The ruling parties depend less and less on their members and their 'society'. Equally, the parties of the Left are located at the margin of the political scene and, having minimal chances to affect political decisions, are incapable of maintaining or activating powerful human resources and are thereby forced to resort to state funding.

This fact produces a ‘fiscal event’. The parties are transformed into ‘corporations’ whose operating costs are covered by the state; they lose entirely their ‘democratic’ legitimization but acquire organic relations of inter-penetration with the state.

According to data regarding the regular funding of parties for 2010, the public funding per inhabitant index in Greece is 4,52 €, one of the highest in the European Union.<sup>12</sup> However, even based on the criteria of the cost of party funding per voter and per valid vote, Greece ranks high, above the average of the total of EU member-states. Greece is in the 4<sup>th</sup> highest position based on the criterion of funding per registered voter (after Luxembourg, Cyprus and Finland respectively), with a cost of 6.49 € and is also in the 4<sup>th</sup> highest position based on the criterion of funding per valid vote (after Luxembourg, Finland and Cyprus respectively), with a cost of 9.39 €.

### **3. Bank lending to the political parties in Greece**

Resorting to bank lending has been one form of party funding in Greece during the last twenty years. The resort to bank lending occurs due to the fact that the constant increase of the operating costs of the parties (primarily of the ruling parties) renders state funding inadequate for their coverage, even though state funding is also increased. Existing legislation does not ban the financing of parties through the use of bank lending. The latter, especially as practiced extensively by the two (formerly) big ruling parties in Greece, PASOK and ND, confirms two contentions: a) that the greater the state funding, the greater the need to resort to ‘liabilities’, and b) that the strengthening of the financial sector (the ‘markets’) in the entire body and operation of the modern state breaks into the hard nucleus of representative democracy, the political parties and the structures of political representation. At the level of applied policy, for example, it is very difficult to control or regulate differently the operation of the banking and financial sector by a system of parties and political personnel that depends organically on bank lending.

However, another distortion is observable in Greece: The (guaranteed) state funding is transferred to the banks as a guarantee for the approval and reproduction of loans that may not have been approved on the basis of purely ‘bank-related’ criteria. It should also be noted that both parties have transferred to the banks the future

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<sup>12</sup> The indicator cost/valid vote for countries with a similar population to Greece, such as Portugal, Belgium and the Netherlands, is 4.33 €, 2.77 € and 1.68 € respectively (Siatras 2012, p. 28).

financing from the state (up until 2015-17) as guarantees, taking for granted that their electoral rates will remain the same as the ones that they scored in the post-1974 period. The electoral contests of May and June 2012 have already refuted this estimate, while also raising serious questions concerning the relevant banking practice that reflects an excessive ease of borrowing money.<sup>13</sup>

Eventually, what one observes in Greece is the organic penetration of the banking sector into the political parties (primarily in the centre-right ND and centre-left PASOK) and the transfer of economic dependence from the state to the banks. The two parties that ruled the country consecutively and are now ruling it jointly find themselves having a massive debt towards the banks, for loans that are not serviced. The banks, on the other hand, have lent money to these parties without any guarantees, assuming that these parties will always stay in power and enjoy huge state financing. The dominance of the banking sector over the political system is expressed in a very open manner, e.g. through legislation which safeguards all of the banks' immediate demands and rules out any discussion about the settlement by the state of the grand issue of the indebtedness of households and small and medium enterprises. This Greek phenomenon reflects clearly the current relationship of organic intertwining of interests between the state, the banking sector and the political system, imposing the systematic submission of all social interests to the economic power of a single sector.

Table 3 registers the share of bank loans in total party revenues.

**Table 3. Share (in %) of bank loans (withdrawn during the fiscal year) in parties' total revenues (1997-2009)<sup>14</sup>**

<b>Year</b>	<b>PASOK</b>	<b>ND</b>	<b>KKE</b>	<b>SYN</b>
1997	n/a	n/a	28.7	10.8
1998	n/a	n/a	29.7	18.1
1999	37.6	n/a	26.8	7.8
2000	55.0	n/a	33.1	22.6
2001	33.4	10.9	28.5	6.4
2002	3.6	17.9	28.4	26.8

<sup>13</sup> The fact that the banks lent huge sums to the two (formerly) large ruling parties in Greece with non-banking criteria (i.e. without actual guarantees but only with the assumption that the parties will always have a massive state funding) is one of the affairs that has fallen under legal investigation in Greece today. In practice, bank lending under these particular terms created a triangle of interdependence (State - Parties - Banks) which lies at the heart of the unfolding economic crisis in Greece.

<sup>14</sup> Receipt of new bank loans is not mentioned in 2010.

2003	23.0	0.0	5.3	10.1
2004	n/a	43.8	6.8	13.9
2005	n/a	27.2	0.0	24.5
2006	45.9	5.4	0.2	24.5
2007	62.7	42.2	12.0	n/a
2008	55.0	n/a	n/a	n/a
2009	48.2	40.2	0	n/a
<b>Average</b>	<b>40.5</b>	<b>23.5</b>	<b>16.6</b>	<b>16.6</b>
<b>Standard Deviation</b>	<b>17.4</b>	<b>16.3</b>	<b>13.0</b>	<b>7.3</b>

*Source:* Data analysis of Published Revenues/Expenses Balance Sheet of the political parties by Ch. Vernardakis.

Sums that stem from bank lending differ from year to year, since parties do not borrow the same sums every year. Therefore, it is not totally right to export an average share of bank lending in the revenues of each party, while it should also be acknowledged that the servicing of older loans lies heavy on the parties' expenses.

However, the participation of banks in the financial revenues of political parties is a steady reality. There are years, such as 2007 for PASOK or 2004 for ND, when the share of bank lending in party finances was decisive. To a large - but not to the same - extent, the same trend is observable for the two parties of the Left.

### **Some conclusions: the financing of the Greek parties post-1974 and the organizational type as 'cartel party'.**

The entire picture of the financing of political parties shows that they depend economically, and almost entirely, on state financing and private (bank) lending. The economic contributions of their members are either small or non-existent, while the revenues from economic campaigns represent a generally small percentage; note that no data is provided concerning the number and identity of contributors as well as the level of each individual contribution (we refer to large donations over 600 Euros, which the parties must publicise by law). In published balance sheets, a notable part of revenues for all parties comes from contributions by members of the parliament and the European Parliament.

The study of state financing in Greece highlights two kinds of distortions. The first one is of a rather techno-economic nature and concerns the forecasts or the omissions of the law that governs the public financing of the parties, as well as the non-transparent manner in which the parties manage their balance sheets, their resources, their relations with private capital - and banking capital in particular. Of

course, the effects of this distortion extend to the political sphere per se, and the system of political representation. At this point, the second distortion is observed, which concerns the character and the role of contemporary political parties as ‘parties of the state’ or cartel parties. This is a category of parties that includes all the systemic parties of governance, irrespective of the ideological family to which they belong, that seek to acquire their resources in the state rather than in the society. Therefore, they are transformed from ‘parties of the society’ to ‘parties of the state’, or else from ‘parties of representation’ to ‘parties of legitimization’ of state policies.

State financing, and the manner and mechanism of its application in particular, have contributed significantly to this transformation of the contemporary party phenomenon. Instead of contributing to the protection of the autonomy of political parties from non-transparent economic dependencies, public financing and its extension strengthened even further their dependence on such factors and reduced democratic political competition. The parties were transformed into ‘professional’ structures, where the notion of ‘interest’ dominates in the function of representation.

The type of ‘cartel party’ (Katz & Mair 1995; 2009) finds its approximate application in the case of Greek two-partyism (PASOK-ND) between 1974-2012.

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