Some Accounting Aspects regarding the Elections Campaigns in Romania

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The objective of this paper is to present the legal framework for financing the election campaigns in Romania and in the world. There are different systems of campaign finance across the world. Some of these systems rely mainly on private funds, some are based mainly on public funds, but most systems are a combination of both. In all cases a certain degree of limitations on contributions and expenditures are a standard characteristic of the campaign finance system. Limitations on contributions can be means to reduce the corruption and limitations on expenditures may be imposed to guarantee egalitarianism among the various political forces.

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Introduction

Political campaigns, whether they are for the local councils or for the Senate or President, are run with money. All this money must be accounted for. The public has the right to know how much money was raised, the sources of the money and how it was spent.

For Romania year 2015 brought substantial changes in terms of financing the activity of political parties and electoral campaigns, through the law 113/2015. This law set up a new mechanism for financing election campaigns from contributions of the candidates and political party funds, obtained outside the election period. The law sets ceilings on electoral contributions equal to those of election expenses, respective destinations and ceiling of election expenses for each type of eligible expenditure. The law also provides for the reimbursement of election expenses for the electoral competitors who achieve a certain number of votes. The basic principle of the new law on financing political parties (Law 113/2015) is that to make campaign financing from the state budget and enables parties to borrow money from individuals and legal entities, but only through genuine acts.

The law regarding the financing of election campaigns in Romania emerged as the major political issue in 2015. This law is in fact the first attempt for Romanian political environment to control the sources of money flowing into election campaigns and also the first attempt to control the electoral expenses.

The principal research question for future researches could be: who contributed to election campaigns? and how did the candidates spent their money?. The answers of this question will be possible to give by the researches after several campaigns. The objective of this paper is not to answer to these questions but to present the legal framework for financing the election campaigns in Romania.

Money in politics strikes at virtually every aspect of political theory and practice, touching on such central political concerns as power, democracy, equality and representation.

There are some basic principles regarding the financing of electoral campaigns and political parties: equilibrium between public and private funding, fair standards for the distribution of state contributions to parties, strict rules concerning private donations, a threshold on parties’ expenditure linked to election campaigns, complete transparency of accounts, the establishment of an independent audit authority and meaningful sanctions for parties and candidates who violate the rules (Biezen, 2003).

These principles are not always respected. We all witness the negative impact of money in politics and public governance. Corruption and unregulated donations are exercising too much
influence on politics and weakening the integrity of elections. In some countries, money from organized crime had penetrated into politics in order to gain control over those elected.

These threats to democratic politics help explain why large numbers of people around the world are losing faith in politicians and democratic processes (Smilov & Toplak, 2007). For example, recent research shows that more than two-thirds of Americans peoples do not trust government because of the influence of big donors (Brenan Center or Justice, 2012).

Systems of campaign financing

There are different systems of campaign finance across the world. Some of these systems rely mainly on private funds, some are based mainly on public funds, but most systems are a combination of both.

Figure 1 – systems of campaign financing

In all cases a certain degree of limitations on contributions and expenditures are a standard characteristic of the campaign finance system. In some cases these limitations may not be specifically defined for campaign finance, but rather be features of broader political finance legislation (Nitzsche, 2015). Limitations on contributions can be means to reduce the corruption and limitations on expenditures may be imposed to guarantee egalitarianism among the various political forces. The Handbook for the Observation of Campaign Finance edited by OSCE classifies these limitations in quantitative restrictions and qualitative restrictions. Quantitative limitations are defined in monetary terms and may include limitations on the amount that individuals or legal entities may donate. Alternatively, they may constitute a limit on how much a candidate or party may spend during an election campaign. Qualitative limitations are defined by the type of transaction. This may be a source of contributions, for example foreign, state, or anonymous donations. Alternatively, it may refer to limitations on the type of expenditure, for example paid political advertising.

In general private funds come from individuals or legal entities, such as companies, trade unions, non-governmental organizations, enterprises with government contracts, political parties and foundations, while public funds are ensured by the state.

Most OSCE participating States use a mixed campaign finance system that allows for both public and private financing. In Romania, the rules of political party financing are stipulated by Law no. 334/2006, as amended and supplemented. According to the law, political parties receive an annual subsidy from the state budget. The amount allocated annually to political parties cannot exceed 0.04% of the income provided in the state budget. To value the principle of equality between women and men, according to this law it is recommended to promote women on electoral lists on eligible seats. The amount allocated from the state budget will be increased in proportion to the number of mandates obtained in the election of women candidates (Gilia, 2012).

The subventions from the state budget are allocated according to the following criteria:
- The number of votes received in elections for parliament;
- The number of votes received in local elections.

If the political or electoral alliances, the grant will be divided, by agreement between the alliance members or, failing agreement, by the number of seats obtained. Political parties and electoral or political alliances receive annual subsidies from the state budget under the law. The grant from the state budget are transferred monthly to the account of each political party through the budget Permanent Electoral Authority (A.E.P.), and reflected separately in the accounts of political parties.
Election campaigns and private financing

Private sources of funding may be internal or external to the party.

The main traditional sources of internal private funding are membership fees, incomes from properties and different activities such as the sale of newspapers and political publications, fundraising activities, festivals and other social events, and occasional public collections.

Political parties are private voluntary associations which should in principle be under control of their own financial affairs, although these may be subject to some degree of state regulation. Laws governing the internal resources of parties should avoid interfering with the independence of political parties. As a rule, public laws should be framed properly, prohibiting or restricting that forms of fundraising which have no real connection with a party purpose. For example, commercial activities, ownership or the acquisition of shareholdings in commercial companies are often strictly limited or even prohibited on these grounds.

Membership fees are the traditional sources for internal party financing. The regular membership fees in particular, can be regarded as the most democratic and legitimate form of party financing (Biezen, 2003). Membership contributions are an attractive form of party finance because they are donated on a voluntary basis and, in spite of material motivations of an individual to join a party, they do not imply a direct pay for service relationship. The contributions from members are not associated with direct demands for influence on programming decisions or access to party related functions.

From a normative point of view, membership fees are therefore the most unproblematic form of party financing. Membership contributions guarantee a certain degree of influence in the party without permitting too much influence. However, we must admit that membership fees are very difficult to acquire lately. In the last 20 years the relevance of membership fees for financing the activities of any party has been gradually declining. One reason can be the proliferation of other sources of funding (such as public subsidies), which has reduced the relative importance of membership fees.

Even in the countries with no public funding, the amount of membership contributions has diminished quite dramatically. One reason for this is the decline in the number of party members, resulting in a reduction in the revenues from membership fees, both in absolute and relative terms.

In the case of countries from Central and Eastern Europe, membership fees are even less important than in the democratic countries. Of course the reasons stand in the relatively low standard of living and the lack of a democratic participatory culture.

In a post-communist democracy like Romania, membership fees have never been an important source of income for political parties. There is no practice to collect membership fees, but the option to raise membership fees is not legally restrained.

Profits of party-owned businesses - Classical forms of party-owned businesses in particular are the sales of party literature and newspapers and the ownership of publishing companies affiliated to the party. Political parties could also run their own recreation facilities, provide social security services, own travel agencies, sports teams, banks and housing projects. Since these are usually no
longer profitable areas, political parties could venture into venture into other areas which are economically more attractive. In Austria, for example, political parties have developed commercial activities in areas such as marketing, shopping centres, and house construction through companies owned or shared by the party.

The problem is that such practices may be susceptible to corruption or at the very least have given rise to suspicion of corruption, as it is evident that certain economic activities (such as house construction for example) may well profit from favourable political decisions. Therefore, it is clear that economic activities which have little to do with the purpose of a political party are problematic. Even if these kinds of activities are often strictly regulated, complete legal prohibitions of commercial activities are rare, if only because this may pose constitutional problems.

The growing importance of other sources of party financing such as state funding, corporate financing and private donations, poses a challenge for the legitimacy of party financing. At the same time these developments can also be seen in a more positive light: they open up the possibility to diversify the available sources of income and may thereby create an opportunity for greater checks and balances.

**Donations** are also one an important source for private financing. While membership fees are no longer sufficient for political parties as source of funding, donations continue to be an essential source of income for parties in most European countries. Private donations are risky because can generate inappropriate links between money and political decisions, in particular may create unwanted opportunities for influence and corruption.

Because of that, states should consider to introduce rules in order to limit the value of donations to political parties and candidates. It is recommended for state laws to provide a set of general principles regarding private donations, in order to avoid conflicts of interests and prejudice of the activities of political parties, to ensure transparency of donations and to avoid secret donations. Public law should be tailored such that it does not endanger the autonomy of political parties and that it ensures their independence. One way to limit this negative aspect of private donations is to set limit of contributions. This means, both restrictions on the accepted amount of donations and certain conditions on the qualification of donors or donations. Another principle is the transparency of donations. Transparency is seen as an effective protection against the improper influence and favouritism that arise from large undisclosed donations in that it allows the public to form its own opinions about party integrity. The purpose of limiting the donation is to prevent contributions that are seen as harmful for the democratic process.

**Public financing of political parties and election campaigns**

A complementary approach to control private donations is to give political parties access to money from public sources (Smilov & Toplak, 2007). If it is done right, the provision of public funding can have a significant positive impact on the role of money in the political process.

Traditionally, political parties from Western Europe have depended on private funding: membership fees and donations from trade unions in the case of socialist parties and contributions from wealthy individuals or donations from private business in the case of conservative parties. Public funding for political parties is a relatively new phenomenon in European democracies and it was first introduced by Federal Republic of Germany in 1967. After that, many countries followed the German example and introduced public subventions for political parties, often first to the parliamentary groups and later to the central party organisation.

Public financing has the role to prevent dependence on private financial donors and guarantee equality of chances. In fact, there are three main reasons in favour of public financing: to compensate for the growing cost and the increasing scarcity of resources, to guarantee free and fair political competition, and to limit the potentially disruptive role of interested money.

Today politics has become increasingly expensive, because of the use of mass-media and cost-intensive methods of campaigning. The increasing need of money for parties is coupled with a decrease in revenue.

Recently, political parties have confronted a substantial decline in the number of party members. Also, parties have lost an important share of their volunteers who worked for the party as unpaid employees or who would undertake campaigning activities. To compensate, political parties engaged a larger number of professionals, which has made party activity more expensive. At the same time, the decline in membership has deprived parties of an important source of revenue by reducing significantly the amount of income derived from membership subscriptions.
Parties in modern democracies cannot reasonably be expected to raise all necessary monetary income themselves. A role should therefore be granted to the state to provide financial support to political parties. State support can help parties meet the ever-increasing cost of democratic politics and can compensate for the scarcity of internal financing. Public subsidies thus bridge part of the gap between voluntary donations and necessary party spending.

This is especially relevant in the more recently established democracies.

Because the pre-democratic authoritarian and totalitarian regimes impeded the existence of competing political organisations, few parties survived decades of non-democratic rule. The very "newness" of the regime often meant that very few parties had historical roots dating back to the pre-authoritarian period, as much of their organisational structure had been eradicated by the repression of a non-democratic regime. Political parties themselves had been created only recently and could not draw on a developed organisational infrastructure or institutionalised links with organised and individual interests for financial assistance. In such a context, there are few alternative resources available except for state subsidies, which serve as compensation for a general scarcity of financial resources.

Expenses limits and financial reporting

Few types of expenses in election campaigns are forbidden around the world. Obvious it is forbidden to buy votes and to use public resources for partisan purposes (excluding regulated public funding). Otherwise, laws set limits on how much political parties or candidates are allowed to spend in election campaigns. The purpose here is not to control the influence of individual donors but rather to reduce the advantages of political parties and candidates with access to large amounts of money. The efficiency of expenses limits depends both on whether the limit is set at the right level and (in particular) on whether they are compulsory.

An essential element of any financing system of political parties is the requirement for disclosure policy on how they raise and how they spend money. Such reporting has two main purposes: to achieve the transparency and to make it easier for those responsible for enforcing donation and spending bans or limits to oversee whether these rules are being followed.

The information required in financial reports varies considerably among countries. Often, the most controversial is whether reports must reveal the identity of donors; this is required in approximately half of the countries with reporting requirements. In some of these countries, the identity of the donor must only be disclosed when the donor makes contributions above a certain amount. Such requirements search for a balance between transparency and protecting the privacy of donors.

Regulation of financing election campaigns in Eastern European Countries

This paragraph analyses political finance regulations and practices in Eastern Europe, especially Romania. Countries in this region have diverse sizes; political regimes, constitutional models and political cultures, but all these countries have a common communist legacy.

After the fall of communism in 1989–91, many of them experienced quick democratization. Since then, these countries have been involved in a considerable effort to regulate money in politics, and in many cases Western European countries have served as a model.

However, the regulatory systems introduced have their own logic. Generally speaking, these countries have elaborate systems of rules that impose restrictions on contributions and expenditures and information mechanisms. However there is a general feeling of dissatisfaction with current levels of transparency. The meaning of measures differs across countries. In countries that lean toward authoritarianism, regulatory system of financing political parties and electoral campaigns can be used to weaken the opposition and prevent the emergence of new and powerful political actors. Therefore, it is difficult to discuss the regulation of party funding, without specifying broader contexts, constitutional and political operating. After all, one of the central tasks of the campaign finance system is to ensure a healthy democratic and pluralistic competition. Many countries in Eastern Europe have in common certain issues related to ensuring transparency and control over money in politics.

The regulations regarding the finance of political parties and election campaigns in the region are influenced by standards from the Council of Europe, the European Union and other organizations such as the Organization for Security and Co-operation in Europe (OSCE).

Some of these countries are subject to intense monitoring by EU regarding their compliance with common standards.
Political finance regulation has not been completely harmonized, although various instruments contain important sets of rules. One of the weaknesses of international efforts has been their apolitical, technical approach to party funding and campaign finance, and the excessive focus on corruption as a primary concern for regulation. As a result, political finance has become a patchwork of increasingly complex rules, the rationales of which are often inexplicable.

The Council of Europe has been the most involved in introducing international standards in the area of political finance in Europe. It has adopted a series of documents concerning the regulation of party financing, with the main text being the 2003 Recommendation of the Committee of Ministers on Common Rules against Corruption in the Funding of Political Parties and Electoral Campaigns (Smilov & Toplak, 2007).

This recommendation firmly establishes the principle that caps on expenditure is legitimate in Europe. Other distinct features of the document are discussions about the admissibility of corporate financing and making private donations tax deductible.

Concluding remarks

The problem of political parties financing and election campaign financing is important from two main points of view. First, political parties and independent candidates in elections are necessary elements for the democratic process. The main purpose of legal regulation of party funding is to ensure a practical political system with stable and accountable political parties capable of representing the interests of the voters.

Also, political parties financing is important from the point of view corruption. It is a common belief that the financing of political parties provides fertile ground for the development of corrupt practices. This is a problem that is not limited to Eastern Europe. Traditional democracies such as Germany, France and Italy have been plagued by corruption scandals relating to political finance, while the USA is notorious for its extravagantly expensive electoral campaigns, which regularly breed accusations of corrupt or illegitimate funding practices.

References