

# POLITICAL COMPETITION AND THE POLITICIZATION OF THE STATE IN EAST CENTRAL EUROPE

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The expansion and politicization of the postcommunist state, even among the reform leaders of Czech Republic, Hungary, Poland, and Slovakia, has confounded early expectations that the state would shrink and grow autonomous once the communist regime collapsed. The variation in these patterns is a function of the distribution of party power in parliament, both over time (turnover) and among parties (fragmentation and effective opposition). Where several strong opposing parties competed for governance, the resulting electoral uncertainty led them to constrain each other through formal regulations and informal practices. In contrast, where one party dominated political competition, lax (or nonexistent) regulations allowed the informal extraction of resources from state firms, the procurement of favorable privatization deals, and the accumulation of positions in public administration. This explanation contrasts with existing accounts, which emphasize either broad communist regime legacies or the functional need for state growth in newly independent states.

*Keywords:* political party competition; state; politicization; corruption; postcommunism

And the state as such? It should be small but strong, they say. Yet I'm afraid the exact opposite is true: the state is large and weak, clearly because we didn't have the courage to confront its inherited form.

—Václav Havel, President of the Czech Republic (Havel, 1998)

**S**tate politicization has come under renewed scrutiny. Recent incidents, such as the party-financing scandals in France or the “Bribesville” investigations in Italy, reinforce the notion of political parties taking over a supposedly neutral state bureaucracy and public administration, using the state

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AUTHOR'S NOTE: *I would like to thank Tim Colton, Keith Darden, Stephen Hanson, Pauline Jones Luong, Lucan Way, and the two anonymous reviewers for their very helpful comments.*

COMPARATIVE POLITICAL STUDIES, Vol. 36 No. 10, December 2003 1123-1147

DOI: 10.1177/0010414003257610

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as a source of private rents. What is less clear are the mechanisms by which this politicization of the state occurs, as the controversy surrounding “cartel parties” and their ability to colonize the state shows (Katz & Mair, 1995; Koole, 1996).

One place where we can observe these processes as they unfold is in the postcommunist context. The demise of communist regimes in East Central Europe in 1989 was to abolish the fusion of the ruling political party with the state, which both weakened and bloated state structures. Under communism, the ruling party made almost all administrative and executive decisions. Staffing of government and state structures took place via the *nomenklatura* system, an extensive list of positions whose occupants had to be vetted by the party. The planned economy itself made most workers into employees of the state and demanded extensive administrative personnel.

The regime’s collapse in 1989 formally ended the communist party’s control and duplication of state offices. Communist parties were now to become competitors in multiparty democracies, and the newly depoliticized democratic state was now to become an effective administrative and executive force. Yet as with democratic reform and the move to the market, both the trajectories and the outcomes of the transition diverged rapidly. First, there was considerable regional variation; thus many post-Soviet states failed to reconstitute themselves successfully, and analysts levied charges of state collapse and state capture (Hellman, Jones, & Kaufmann, 2000; Pasti, 1997, Staniszkis, 1999). The near disintegration of the Albanian state in 1997 and the post-Yugoslav disaster also stand in stark contrast to the relatively effective states of East Central Europe, Slovenia, and the Baltic Republics. Second, the processes of state transformation were not linear and straightforward, even in countries that were otherwise leaders of political and economic reform, that is, Hungary, Poland, and the former Czechoslovakia (Bunce, 1999; Cirtautas, 1995; Sperling, 2001). Most surprisingly, the Czech Republic—the early frontrunner of reform—came under heavy criticism for its lack of reform of central state structures, public administration, and local government.

Above all, although the communist monopoly on state structures has faded, the postcommunist state has not been depoliticized. Parties continue to seek private benefits from the public domain of the state. The new democratic actors continued to draw material resources from the state and to favor their allies in state appointments and contracts (Ganev, 2000; McFaul, 1995). For example, even as the state contracted worldwide throughout the 1980s and 1990s (Schavio-Campo, do Tommaso, & Mukherjee, 1997a), it has expanded in both absolute size and in its share of employees in East Central Europe. Worryingly, it has thus expanded precisely where it has failed to

grow in strength. Thus, in the Czech Republic and in Slovakia, public administration employment has greatly increased, yet these states have not enforced more regulations, extracted more taxes, or devolved more powers than their neighbors.

This paper argues that the distribution of party power in parliament, both over time (turnover) and among parties (fragmentation, effective opposition), influenced the extent of state politicization. Where many roughly equally powerful parties competed for governance, the resulting electoral uncertainty led them to constrain each other, both through formal regulations and through informal practices. In contrast, where one party dominated political competition, lax (or nonexistent) regulations allowed the informal and covert extraction of resources from state firms, the procurement of favorable privatization deals, and the accumulation of positions in public administration. The potential for rent seeking covaried with the structure of party competition.

The first section below presents the definitions and the observed variation. The second section tests existing explanations, and the third section offers an alternative account that examines how unchallenged political actors can extract state assets. The fourth section examines party finances and public administration growth.

### DEFINITIONS AND ANALYTICAL QUESTIONS

The state, broadly defined, is the set of institutions that legitimately dominate policymaking and the enforcement of legal sanctions. The political control of the state may alternate (in the form of governments), but state structures endure as the executive framework (Lawson, 1993; McFaul, 1995). Familiar components of the state include public administration, obligations (taxes, military service, etc.), and provisions (defense, laws, welfare). A politicized state's structures are captured by political competitors such as interest groups or political parties. Administration and regulations can then be shaped by the ad hoc needs of political agents rather than by a priori policy objectives aimed at providing public goods. Legal enforcement favors private interests, whereas policy favors resource extraction for private ends (rent seeking). Such rents can consist of jobs, contracts, or financial transfers. Political loyalty, rather than merit, is the criterion for obtaining them.

Throughout this study, politicization is operationalized by the use of the two indicators of rent seeking, the regulation of party financing and the growth of public administration. First, lax regulations of party financing promote politicization; they allow state agents, such as state-owned firms and

banks, to contribute to the parties; they do not force parties to report their finances; and they offer few sanctions for violations of the laws. In contrast, strict regulations stipulate the amounts and delivery of state funding, enforce transparency, and cap private financing. Second, public administration growth consists of the number of state employees and its rate of increase. It is a useful proxy for state politicization when parties, rather than civil service regulations, nominate officials and staff the administration.

The cases examined here consist of Hungary, Poland, the Czech Republic, and Slovakia. Their shared status as the leaders of economic and political reform (European Bank for Reconstruction and Development, 1995) makes the divergence in patterns of state politicization all the more surprising. It also allows us to eliminate the possibility that an overall lack of reform impetus is responsible. Moreover, the communist party was forced to exit from power in 1989 in these cases. Thus, communist parties could not continue to benefit themselves and to preclude reform. Two additional "hard" cases, Slovenia and Bulgaria, briefly test these propositions.

The four countries diverged rapidly in their trajectories. Although no state can be said to be fully neutral, the Hungarian state has made considerable strides toward depoliticization. Several administrative decisions were taken out of the hands of national political parties as the administration decentralized extensively in 1990, and a strong constitutional court reviewed party decisions. Rent seeking has been relatively low, as evidenced by favorable corruption ratings and steady rates of public administration staffing. Extensive and stringent regulations made state financing of parties transparent.

Similarly, in Poland, although governing coalitions have staffed and restaffed the upper tiers of the administration, the overall levels of public administration employment has less than doubled, and no party has been able to monopolize the state. Instead, the government has increasingly codified an independent civil service and made party financing increasingly regulated and public. Although parties staffed the corporate boards of state enterprises and created parastatal organizations, the overall pattern is that of increasing regulation and decreasing rent seeking.

In contrast, in the Czech Republic, there were few efforts to stem the extraction of state resources for private means. Party funding has been neither transparent nor regulated—state firms often contributed to party coffers, whereas state-owned banks offered preferential credits. The extent of the party financing and privatization scandals sharply contrasts with the earlier image of the Czech Republic as a reform leader (Appel, 2001). Meanwhile, despite repeated criticisms of its unaccountability and inefficiency, public administration has more than doubled.

In Slovakia, the state has been politicized even more extensively. The 1994-1998 government of Vladimír Mečiar became infamous for halting the second wave of voucher privatization and for, instead, distributing state enterprises on very favorable terms to political allies of his dominant Movement for a Democratic Slovakia (HZDS). Corruption rankings steadily worsened, and regional reform of 1996 centralized rent seeking even further. Even as these figures testify to its inefficiency, public administration has more than tripled.

### EXISTING EXPLANATIONS

Explanations of state politicization have emphasized the regime legacies of communism, the functional demands of institution building, and the political accountability structures as the key explanatory factors. First, “regime legacies” explanations highlight the continuing impact of communist structures on democratic institutions. Specifically, the weakness of the communist state left its successor open to predation. Over time, the demands and inefficiencies inherent in central planning and the lack of popular legitimacy lowered the communist states’ capacity (Ekiert, 2001). The parties’ response to these shortcomings took the form of accommodating society through a degree of liberalization—the Polish and Hungarian states gained some independence from the party by the 1980s—or of increased authoritarianism, as in Czechoslovakia.

This communist response, whether “patrimonial,” “accommodative,” or “authoritarian” (Kitschelt, Mansfeldová, Markowski, & Tóka, 1999), could account for the observed variance in one of two ways. First, the more patrimonial or accommodative the communist regime was, the looser the controls on politicization and despoliation of the state. Where the communist state was the more constrained and authoritarian fewer such opportunities existed. This line of reasoning would lead us to expect that the Czechoslovak successor states would be far less susceptible to politicization than the Hungarian or Polish states.

In many ways, this is a compelling analysis. The accommodative communist regimes in Hungary—and to a lesser extent in Poland—allowed the formation of strong economic interests among the enterprise managers, with their “spontaneous privatization,” prior to the advent of multiparty democracy. Their slow, negotiated transitions out of communism also gave plenty of time for these actors to entrench themselves. However, contrary to expectations, these economic actors have not been able to politicize the state. Instead,

the more authoritarian Czechoslovak regime produced considerably greater politicization than predicted by its communist past.

Alternatively, communist states that were capable of implementing political and economic reform should subsequently withstand attempts to politicize them. Several scholars have noted the remarkable correlation between prior liberalization and subsequent economic and political reform (Bunce, 2001; Fish, 1998). If this line of reasoning holds, we should expect the patterns already found, that is, Polish and Hungarian states would be less politicized than their Czech and Slovak counterparts. However, prior liberalization does not explain why the Slovak state is more politicized than its Czech counterpart despite its relatively more liberal communist regime. (Similarly, lack of prior liberalization fails to explain how the former Soviet republic of Estonia and, to a lesser degree, Lithuania have reformed and depoliticized, despite the lack of liberalization under the Soviet Union.) In short, broad regime types do not explain variation.

A more functionalist account argues that states will expand and politicize where they face the greatest opportunities to do so. Economic reforms and new market regulations may require an expanded public administration to be properly implemented (Goldsmith, 1999). Wagner's Law states that the size of the state expands as the economy does (Schavio-Campo, de Tommaso, & Mukherjee, 1997b). In turn, as the bureaucracy expands, so do the opportunities for staffing it with party allies, especially where the bureaucracy has not been independent before. However, the state seems to have expanded in East Central Europe only partly as a result of the new regulation of markets and contracts. In fact, the state has grown the most and parties have extracted the most resources where there have been the fewest regulations of the market or devolution of state powers, as in Slovakia and in the Czech Republic.

Another variant of this explanation focuses on historical deficits as the reason for state building. Specifically, Slovak and Czech state growth and politicization may be the result of having to build two separate states after Czechoslovakia split into two constituent republics in 1993. Because many Czechoslovak institutions became de facto Czech ones, Slovakia was left with an administrative deficit that it sought to overcome through state expansion. However, the rate of increase did not change after 1992 in Slovakia. In fact, it actually dropped from 1992 to 1993 and, only then, resumed its previous rate. Nor did Czech rates of expansion change.

Finally, the third set of accounts focuses on the structures of accountability that provide incentives to provide public goods rather than private rents. Political agents responsive to the public should be less likely to politicize the state. For example, in an "embedded state" (Evans, 1995), the dispersal of power within the state prevents it from oscillating too wildly in policy, thus

making it accountable both to other institutions and to society (Bruszt & Stark, 1997). Multiple mechanisms have been suggested. Politicizing parties will reform the state if they think that the electoral payoff of supporting reform is higher than the benefits of rent seeking (Geddes, 1994). Alternatively, the lower the opposition, the easier it is to create state structures insulated from politics (Moe, 1995). Finally, where mass franchise predates bureaucracy building, parties that arise within the legislature will have the greatest opportunity and incentive to politicize the state (Shefter, 1994).

These path-breaking explanations travel to the postcommunist context with difficulty. First, given the continual volatility of postcommunist electorates, it is particularly difficult for postcommunist parties to predict vote share or its sources. Few parties calculate the electoral benefits of reform—and when they do, they have ignored voter priorities. Second, the assumption that parties could deliberately insulate specific state sectors is more valid in a two-party system, where one party controls the government rather than having to rely on and share goods with coalition partners, as in postcommunist multi-party systems. Finally, in all postcommunist cases, the bureaucracy arose before the mass enfranchisement of 1989, yet patterns of politicization vary.

Rather, as the subsequent sections argue, party competition does matter—but in a very different way, that is, in the mutual constraints and guarantees it places on the parties themselves.

### **PARTY POLITICS AND STATE POLITICIZATION**

The explanations presented above give us powerful insights into the starting points and opportunities for state politicization. Their limitations, however, lie in the underspecification of the agents and mechanisms of state politicization, the focus of the alternative account presented here. To summarize, new democratic competitors after 1989 had to scramble to find material support, and their efforts to secure the necessary resources underlie state politicization.

In East Central Europe, these new competitors were chiefly political parties. Because policy demands were so huge—and the state itself so weak—parliamentary parties initially assumed much of the administrative work after 1989. The sheer volume of laws to be drafted and the unresolved debates about powers and functions led to “overparliamentarization” of policy, as parliaments expanded to fill the vacuum created by cabinet and state inadequacy (Ágh, 1994; Numberg, 1999). Their enormous role meant that parliamentary parties could legislate for their own benefit. By creating new institu-

tions, these parties could build in statutory and informal privileges (Mair, 1995).

This supremacy of parliamentary parties was not accompanied by their cohesion or strength on the ground. The first years of democracy were marked by electoral volatility, fractioning and lack of discipline in the parliaments, and unclear party identities. Turnover rates within individual parliamentary clubs in the first term averaged over 30%, and electoral volatility was higher than after other transitions (Bielasiak, 2002). Compounding this initial uncertainty was the parties' inexperience and relative poverty—and without material resources, parties cannot campaign, win elections, or maintain their organizations. The more substantial and secure these resources, the more the parties could pursue flexible electoral strategies and maintain their activity regardless of electoral performance. Thus one motive for state politicization was simple—party survival.

For their part, state resources, whether rent seeking or formal subsidies, have the benefits of stability and largesse—parties are not accountable to policy constituencies; they retain considerable strategic flexibility, and yet are guaranteed support that sees them through electoral troughs. Other sources of party funding are either unreliable or restrictive. The fluid and unattached electorates of East Central Europe would be the least reliable of these sources, as they are limited by their poverty, their fickleness, and the nonexclusivity of their support. Party members—if numerous, loyal, and generous—are a better resource, but they limit the party's strategic flexibility (and they are rare—less than 2% of the postcommunist electorate belonged to a party). Clientelism and patronage, when available, are costly and restrict the parties' strategic appeals (Kitschelt, 2000). Private enterprises and non-governmental organizations can be generous and steady in their support, but they exact their price in subsequent policy concessions. Moreover, fledgling private firms in East Central Europe were often unlikely to have much spare capital. Given the lack of loyal electorates and the unwillingness of party members or voters to fund parties—as one activist put it, “counting on membership dues is a utopia” (Kaczmarek, 1999)—political parties had to go elsewhere.

Because no party is a priori more virtuous than another, we can expect that most parties would seek exclusive and unregulated access to state resources. Whether or not they would succeed, however, depended on the parliamentary constraints. The mechanisms of state politicization, thus, have less to do with the potential electoral costs of rent seeking than they do with the dispersion of party power and the direct mutual constraints it produces.

The more one party is unusually strong or entrenched, the easier it is for such a dominant party to politicize the state and capture its resources, to con-

trol institution building, and to privilege itself unchallenged while also corroding reform and perpetuating policy mistakes (Hellman, 1998; Orenstein, 2001). The opportunities were even greater where a dominant actor remained in power from the previous era, as in Romania, Albania, and Bulgaria. When other parties could not hold the dominant party in check, it could politicize the state more freely and, subsequently, make it even more available for politicization.

Whereas all parties try to limit the amount of resources available to their competitors, dominant parties are more likely to succeed. With no effective opposition and relative certainty of reelection, they do not build in guarantees for electoral losers. Instead, they entrench themselves both by expanding the size of the public administration and by seeking funds from economic interests dependent on favorable parliamentary decisions. Such parties also refuse to regulate access to state resources because doing so would make many of their extraction activities illegal and give the opposition a purchase. In short, because they alone stand to benefit, dominant parties have little incentive to constrain rent seeking or to insulate the state. Given the lower turnover, these effects become cumulative.

However, when a plurality of actors vie for power and access to policy making, they are more likely to hold each other in check. The dispersion of parliamentary power, through turnover, fragmentation, and a critical and active opposition, leads to electoral uncertainty that provides an incentive to make sure no electoral loser would be punished severely. Governing parties may have to seek the opposition's support and are likely to find themselves in the opposition in the next electoral round. Governments thus seek self-constraints and guarantees for all parties, rather than benefits for governing parties alone. Well-regulated and equitable state funding of parties guarantees the futures of the parliamentary parties without unduly privileging any one (Mendilow, 1992). Even if some parties attempt to treat their role in government as a door to patronage, others can hold in check these rent seekers. Public administration cannot be staffed as extensively, and with greater turnover, there is less opportunity to accumulate positions. The dispersion of power thus produces mutual constraints and guarantees.

This is not to say pluralism is without its costs. Constant checking of each other's efforts in parliament means that policy initiatives tend to move more slowly through parliament, and policy stalemates can result. Finally, these delays can slow down the legal formalization of mutual constraints, and fragmented party systems may rely more on informal constraints, such as purging each other's allies from state posts, rather than on formal laws, such as civil service codes.

As a result, two types of state support for parties arise: *public* (stringently regulated, transparent, and formalized) access to state resources or *covert* (unregulated and informal) access in which the parties can extract resources wherever they can from the state. The former benefits all parliamentary parties, usually in proportion to their parliamentary power. Parties that rely on formal state resources can be forced to provide a clear and convincing account of their financial dealings and administrative decisions. Such support is more of a public good because it is nonexclusive, and its use by one party does not diminish the others' benefits. The result is lower state politicization. Unregulated and covert access, in contrast, tends to favor dominant parties who can freely extract state resources and limit their competitors' access.

Thus, the structures of party competition lead to distinct configurations of monitoring and sanctions, and these influence how politicized the state can become. Where party power is dispersed, mutual control and monitoring lead to transparent and regulated access to state resources, thus hindering state politicization. Where party power is concentrated, no effective mutual controls develop, thus promoting rent seeking from the state.

The converse scenarios are unlikely. A cartel of fragmented parties, which would stuff the public administration and monopolize state funding, would require means (extensive party cooperation) and opportunities (lack of incentives for regulation of other parties) that rarely exist and are even scarcer in consolidating party systems. A dominant party could also promote public funding, reasoning that it would benefit more than others, but there is little reason for it to be magnanimous, since it can accumulate more if it excludes others.

If this explanation is correct, the dominance of one party should lead to minimal regulation of rent seeking, covert and informal state financing, and an increase in public administration. The more we move to a multiparty system with dispersion of power and turnover, the more the competitors are likely to build in mutual guarantees and constraints. Public access to resources limits the need for politicized administrative expansion, and it also increases formal regulation and transparency.

#### **STATE POLITICIZATION: PARTY FINANCE AND PUBLIC ADMINISTRATION**

Below, I examine in more detail these mechanisms and outcomes of the following two forms of state politicization: the regulation of party finances

(the system of formal and informal party funding) and of public administration (the expansion of the central state employment).

#### **PARTY FINANCE**

The more dispersed the parliamentary power is, the more public the party financing. As we can see from Table 1, the distribution was most skewed in Slovakia and in the Czech Republic, where the parliaments were dominated by the HZDS and the Civic Democratic Party (ODS), respectively. These two parties ruled for most of the post-1989 period (until 1998 in both cases) faced with weak opposition. Power was initially far more dispersed in the fragmented Polish parliament, and in Hungary, where turnover rates and supermajority requirements offset any seat majorities. Even as fragmentation decreased over time, turnover did not, and so both Hungary and Poland moved to increasingly public party funding, regulating their sources, accountability, and transparency (see Table 2).

In Hungary, the rise of the six opposition parties in 1989 meant power was dispersed among several political actors. When the Round Table negotiations began, each party was uncertain regarding its electoral popularity or its future as a political actor. Each wanted to ensure the others would not get an electoral advantage. Because none had the wherewithal or the desire to allow any other to benefit exclusively, all agreed to mutual constraints.

Both the electoral and the party-funding laws were the consequence of extensive compromises made both between the communist party and the opposition and within the opposition camp in 1989-1990 (Bernhard, 2000; Körösiényi, 1999). The opposition parties also insisted on the distribution of former communist party property to all the political parties after the first elections. This kept the parties afloat financially and led to continued public state funding for parties—the governing parties were far more uncertain about their prospects than their share of seats would indicate, and they were concerned about maintaining a status quo where losers of elections stood a chance to win again. Moreover, a two-thirds supermajority was necessary to pass major pieces of legislation, further making the dominance of one party less likely.

Party funding by the state was both generous and strictly regulated. According to the October 1989 law, parties receiving more than 1% of the vote were eligible for state funding. Each party received additional state funds in proportion to the number of candidates it presented. At the same time, the majority of the new law on parties was concerned with the methods of funding distribution, the use of and limits on party donations, and accounting for both. Party funding reports were made public, and an independent

Table 1  
*The Dispersion of Power in Parliaments*

	<i>Longest tenure of governing party in office, in months</i>	<i>Fragmentation in 1st parliamentary term</i>	<i>Fragmentation in 2nd parliamentary term</i>	<i>Fragmentation in 3rd parliamentary term</i>
Hungary	48	.71	.65	.74
Poland	48	.90	.75	.67
Czech Republic	89	.55	.79	.76/ .73
Slovakia	90	.60	.69	.77

*Source:* See Rae (1971).

*Note:* Fragmentation measured by  $1 - \sum S_i^2$ , where  $S_i$  is the seat share. The index measures the concentration of strength among parties; a system dominated by one party has an index of 0. The Slovak HZDS-led coalition was in office three times, for 9, 33, and 48 months, respectively.

Table 2  
*Party Extraction of Resources from State*

	Percentage of formal party funds from state	Who can contribute to parties?	Accountability?
Hungary	69%	Individuals (capped) State	State subventions based on successful audits of party accounts. Reports and audits by independent state institute.
Poland	50%	Individuals (capped) State	Increasing: from minimal, to state subventions based on successful audits of party accounts in 2000. Reports and audits by independent state institute.
Czech Republic	35%	Individuals State firms Foreign sources Anonymous donors State	No independent auditing of party reports; no sanctions for false or erroneous reports. No audits of loans.
Slovakia	30%	Individuals (capped) State firms Foreign sources Anonymous donors State	Yearly reporting of party finances, but no sanctions for parties that do not uphold the law. Parties report to parliament.
Western Europe	52%	Varies	Varies

*Sources:* Ágh (1995); Pierre, Svasand, & Widfeldt (2000); Walecki (1999).

*Note:* Author's calculations, obtained by  $\sum S_i \div \sum T_i$ , where  $S$  = state contribution to  $i$  party, and  $T$  = total funds received by  $i$  party.

monitoring agency, the Government Control Commission, was set up. Subsequently, in May 1991 professional accounting standards for parties were introduced and repeatedly upheld (Petroff, 1996). As a result, despite the rise of foundations closely allied with the parties and the ties of business with parties (especially the postcommunist Magyar Szocialista Párt (MSzP), with its ties to businesses that arose from the privatization of its assets), party finances were more public, were more stringently controlled, and were allowed less rent seeking than in the other cases considered here. In short, “strong limits have developed upon party penetration into state and social life” (Körösényi, 1999, p. 168).

In Poland, the communist party and the opposition trade union, Solidarity, entered into Round Table negotiations in early 1989. Their power-sharing compromises included semifree elections that guaranteed the communists and their satellite parties a majority, and limited restrictions on party financing. The latter was to benefit both the communists and Solidarity; the former relied on their considerable assets, whereas the latter counted on extensive international and domestic support. When the communists realized how fragile their support was (they lost every seat they could in the elections and retained the majority in parliament only thanks to the Round Table agreements), they subsequently proposed extensive state funding for parties in the winter of 1989-1990. Such a law would benefit the communists disproportionately because the proposed amount would be based on the number of seats (Majchrowski, 1997). By that point, however, the communist satellite parties had defected over to Solidarity and voted against the proposal. Already, fragmentation began to act as a constraint on any one party’s privilege.

As both blocs fragmented in 1990, parties increasingly began to speak both of more stringent regulations regarding party financing and of state subventions for parties. The former was achieved, and new additions to the law ended foreign funding and capped party spending. The law allowed parties to engage in entrepreneurial activity and to benefit from membership dues, gifts, and so forth. However, parliament was too fragmented to agree on the amount of state funding for the parties despite repeated announcements that it would be introduced. Furthermore, there were no formal sanctions for parties that failed to account for their income. Instead, parliamentary parties relied on informal constraints, such as repeatedly publicizing each other’s transgressions.

Subsequent compromises resulted in increased regulations. The largest two parties in the 1991-1993 parliament, the Democratic Union (UD) and the party of the Democratic Left Alliance (SLD), allied to change the electoral law to favor bigger parties. However, because even these two parties each commanded less than 14% of the seats—and so needed to get the other par-

ties' support—they provided state funding for other parliamentary parties as a “carrot.” Uncertain of their future prospects, the other parties supported the proposed state financing. The 1993 electoral law introduced subventions for parties and gave more free media time to all parties with national lists. It also continued the cap on the amount of private campaign spending to the equivalent of 60 average monthly wages (International Foundation for Electoral Systems, 1996; Vinton, 1993) and broadened the definition of “state involvement” in firms and enterprises that could not contribute to parties, further limiting covert access. In 1997, state funding was broadened to include all parties with 3% of the vote.

After several years of funding parliamentary representations and partially refunding campaign costs, Poland continued to move to greater public state funding. In 2000-2001, new laws passed by parliament ended all entrepreneurial activity by parties, forbade any public fundraising campaigns, and issued generous state subventions for parties, provided that they can account for how they spent their money and that these public reports pass audits by independent public accountants (K. Czaplicki, personal communication, June 1, 2001). Any nonstate gifts had to go through an official bank account set up exclusively to cover campaign funds.

The differences in public state funding in Poland and in Hungary reflect the initial power dispersion. In Poland, extreme fragmentation meant delays in formal regulation but constant informal mutual oversight. In Hungary, a stable constellation of parties led to an earlier formalization of public party funding. Despite the differences in dynamics, however, the outcomes were similar. Private gains from the state were limited and regulated, and contributions from state firms and institutions were banned from 1989 on in both Poland and in Hungary, denying access to a crucial source of covert party funding. Furthermore, any violations were effectively exploited by competitors and publicized widely.

This is not to say that political parties in Hungary or in Poland were somehow more virtuous; where they could, they extracted state resources covertly. The slower pace of privatization and restructuring of state enterprises offered considerable opportunities. For example, in Poland, half of state enterprises are not privatized, and parties have dominated the boards of state enterprises and quasi-state funds and agencies. Other incidents included malpractice in public procurement, favorable awarding of concessions, and unregulated lobbying (The World Bank, 1999). Nor were the parliamentary parties generous beyond reason. In Hungary, changes in 1994 limited public funding of nonparliamentary parties, and from 1998 to 2002, the ruling Fidesz party stood accused of rent seeking. However, self-interest meant the parties would increasingly constrain and regulate their activities. Their mutual desire to

benefit themselves also led them to fetter each other and to adopt stringent regulations.

In contrast, where a single party dominated the political field, it could privilege itself more freely. In the Czech Republic, given the antiparty rhetoric of the opposition, Civic Forum, in 1989, the interim government of national reconciliation formulated a rather vague law regarding parties in January 1990. It did little to address finances other than to stipulate that the Civic Forum, the Communist Party and its four satellites, and the Slovak Public Against Violence could make use of their own funds. Because the communists had enormous resources, the new democratic legislature abolished this disparity after the June 1990 elections by forcing the communist party to give up 95% of its assets.

As Vacláv Klaus's ODS arose from the Civic Forum, it "reluctantly allowed" state funding but refused to expand the regulatory framework, creating a persistent pattern. The ODS faced little opposition in the parliament or criticism in the media. The opposition was largely unsuccessful in its efforts to form regulatory institutions (Novotný, 1999). The main counterweight to the ODS, the Social Democrats, only gained significance in 1996. Other opposition parties, such as the Communists or the Republicans, were radical parties that could cooperate neither with each other nor with any other party. Thus, the ODS could extract resources and accumulate state positions with little oversight.

Originally, the state only funded parties that received 2% or more of the vote. These funds were to be used for daily activities of the parties. Subsequently, as state-funding levels increased by the 1992 elections, regulations actually decreased. The law now made it possible for state funds to be used for electoral campaigns as well as daily activity. The electoral threshold for access to state funds was then increased in 1996 to 3%, thus limiting access. In February 2001, the ODS and the Social Democrats (ČSSD) moved to increase funding for parties that crossed the 3% threshold but without any additional regulations (Simicka, 1999). At each point, the governing parties benefited more than their counterparts. For example, whereas all parties had to put up deposits for their candidate lists in Czech elections, the funds for the parliamentary parties came from state sources, whereas parties outside of parliament had to raise the money themselves.

The lax Czech funding laws also created enormous incentives for extracting resources from the state covertly. First, despite formal requirements for reporting party finances, no sanctions were applied to parties that failed to report or falsified their reports. Second, unlike Polish or Hungarian regulations, Czech and Slovak laws allowed state firms and enterprises to contribute to parties. Local governments were also allowed to donate, and the ODS

refused to consider proposals to limit these donations. Third, parties themselves were allowed to undertake business activities. The lack of transparency made bank "loans" to parties especially attractive, and the parties did not have to state the conditions or guarantors of their loans. These loans were then paid off by third actors, including state enterprises (Reed, 1996). Parties could even break up large gifts into smaller ones, thus getting a tax break.

As a result of the loose regulations, parties freely reached out to banks and firms with relative impunity. Not surprisingly, given its dominant legislative role, the ODS was the biggest beneficiary. The most notable scandal occurred with the discovery that two generous "donors" to the ODS in 1995, Lajos Bacs and Rajiv Sinha, were a dead Hungarian and a Mauritian, respectively. Accusations surfaced that Milan Šrejber, an entrepreneur and potential beneficiary of a steel works privatization deal, was behind the gifts of nearly half a million dollars (Czech Radio News, 1997). In addition, the Investiční a Poštovní bank's funds were used via the Czech Cultural Trust (a quasi-nongovernmental organization [NGO] founded by ODS supporters) to lend 50 million Kč (\$2.5 million) to the ODS in the 1992 campaign with no repayment deadline. Despite considerable irregularities in its dealings, the bank was subsequently left alone by regulators. The ODS did not return the funds, nor did it suffer any legal consequences.

If the ODS dominated rent seeking, other parties valiantly tried. The Krest'ansko-demokratická Unie-Česka Strana Lidová (KDU-ČSL) signed a murky agreement with the Italian entrepreneur Leonello Mosco, who then sent 3 million Kč (\$100,000) to the its coffers. The Občanská Demokratická Aliance (ODA) incurred debts of over 60 million Kč (\$3 million) in the 1992 elections, which the bank owner then offered to erase. A new loan of 58 million Kč (\$2.9 million) was then paid up by a private firm. In the "Bamberg affair," Social Democrats were accused of promising key government posts in exchange for favorable loans to a group of Czech-German businessmen in 1996. Yet none benefited as much as the ODS, whose electoral victories made it seem invincible and, for entrepreneurs eager to benefit from the party's lax corporate regulation, irresistible.

In Slovakia, the dominance of one party had similar results. Initially, the Slovak party-funding scheme was identical to the Czech because the two were in the Czechoslovak federation. In 1992, the law was revised to stipulate that parties without mandates would lose their funds. This benefited the newly ascendant HZDS, led by Vladimír Mečiar. First, it eliminated funds for potential new challengers. Second, because parties were then constantly splitting and fusing, it permitted flexible interpretation of what it meant for a

party to have earlier gained mandates—a loophole Mečiar exploited once he began to appoint the judiciary in charge of interpreting the law.

As the HZDS governed in 1991-1998, it financed parties with 3% of the vote, but did not regulate this funding. In 1994, the law on parties prohibited the founding of enterprises but allowed parties to enter existing enterprises and corporations. As a result, party fundraising was dominated by favorable privatization deals, as the Mečiar administration distributed both posts and contracts. With minimal oversight or regulation, the HZDS benefited from such deals disproportionately—far more than its coalition partners, the Združenie Robotníkov Slovenska (ZRS) and the Slovenska Narodná Strana (SNS) (Dilema, 2000b). The HZDS, which nurtured the “links between privatizing investors and top politicians in the civil service” (Freedom House, 2000), made privatization bids contingent on party contributions, and the contracts themselves went to party allies.

Furthermore, there were no stipulations limiting the amount of contributions from private firms or state-owned enterprises or any contribution limits. Stunningly, bribery was no longer illegal under the Mečiar government. As a result, the HZDS became the wealthiest party in Slovakia, and because its finances were dominated by covert deals and extensive personal ties, its brief exits from power in 1991 and in 1994 did not change its dominant position. Instead, the party continued to receive “astronomically high” amounts from anonymous donors (Malčická, 2000), such as the 40 million Kč (\$10 million) it received in 1998 in addition to gifts from named donors, state funding, and unreported contributions.

However, changes in the structures of competition could bring about changes in the system of party financing. When the HZDS was finally voted out of power in 1998, the regulatory framework began to change. Bills introduced by the new Democratic Coalition (SDK) government in late 1999 would cap the funds the parties could use, increase the amount of state funding, and mandate greater transparency in party accounts (although the lists of donors still remained secret) (Radio Free Europe/Radio Liberty broadcast, 1999).

As long as the dominant parties ruled in both the Czech Republic and in Slovakia, however, they could freely extract resources for their survival from the state with little constraint on the nature or amount of this funding. The weakness of the opposition also meant that the full extent of their rent seeking was not made public until the late 1990s. The lack of regulation and of legal accountability meant that covert party funding held sway and served the dominant parties.

### PUBLIC ADMINISTRATION

Appointing party activists and members to state positions (administration—excluding those employed in state health care, armed forces, or education) was another aspect of state politicization. Parties did not hire members en masse; there were often too few members to do so. Rather, they created new ministries and parastatal organizations (funds, agencies, and intermediary bodies, such as health insurance boards, regulatory commissions, and state-owned bank boards), which were led (and then staffed) by party loyalists. Such appointments provided selective incentives to party supporters in the name of public goods. In the diplomatic phrasing of the World Bank, the growth of public administration “in some part seems to be related to nepotism and favors” (The World Bank, 1999).

Moreover, state structures could be used for private party ends; for example, the Polish government was criticized for letting its Public Security Agency investigate competing political parties in the early 1990s (as was the Czech); for having the State Tribunal, which was in charge of adjudicating crimes by high state administrators, consist of politicians; and for allowing the Attorney General to remain a practicing politician (the Minister of Interior.) Furthermore, parastatal organizations also obtained policy influence for party allies by granting them concessions, licenses, and exemptions.

However, the means, and the extent, of this politicization varied. Where multiple parties competed for power in parliament, politicization was curtailed by parliamentary turnover and the vigilance of the opposition. Opposition tended to constrain the accumulation of posts by any one party and to push for devolution of power from the center to the periphery, thus limiting the rate of increase of the administration.

As a result, the Hungarian public administration did not expand (see Table 3). The two-thirds supermajority requirement gave the opposition extensive powers of veto and codecision, as well as formal oversight of government actions. These institutions had “the effect of strengthening the legislature as a counterweight to the government” (Köröseyi, 1999, p. 203). Thus, the 1989 laws on the civil administration made whole sets of state positions incompatible with party membership, including most of the civil servants. A 1992 novelization, the Civil Service Act, furthered the strictures and regulated nominations, promotions, and salaries. Moreover, the civil service had a relatively high rate of turnover both in 1990 and in 1994. However, this consisted largely of a lateral movement among the administrative sectors because over 60% of the bureaucrats spent their careers in the civil service (Köröseyi, 1999).

Table 3  
*Public Administration as Percentage of Total Employment and in Absolute Numbers*

	Hungary		Poland		Czech Republic		Slovakia	
1989	7.5	397,900	1.5	260,700	1.5	74,047	1.5	32,833
1990			1.6	259,700	1.7	95,743	2.2	47,715
1991	7.8	285,840	1.8	273,100	2	99,098	2.6	56,531
1992	7.7	293,700	1.9	296,600	2.5	123,448	3.9	83,767
1993	7.8	299,500	3.3	298,400	2.7	132,675	3.4	72,739
1994	8.5	320,200	3.6	330,400	3	146,266	3.5	72,775
1995	8.1	318,100	2.6	384,800	3.2	161,640	3.6	78,000
1996	8.4	306,600	2.7	402,100	3.3	167,917	3.9	
1997	8	293,800	2.7	423,100	3.5	175,478	4.2	84,951
1998	7.9	294,000	2.7	430,300	3.6	177,066	4.2	84,355

*Sources:* Rocznik Statystyczny (1990-2001); Magyar Statisztikai Evkönyv (1990-2001); Statistická Ročenka České Republiky (1990-2001); Statistická Ročenka Slovenskej Republiky (1990-2001).

*Note:* OECD average: 4.2%; developing world average: 1.7% (Schavio-Campo, do Tommaso, & Mukherjee, 1997b). Figures do not include the armed forces or the apparatus of the welfare state (those employed in education, health care, etc.).

Again, these outcomes were not the result of a broad regime legacy, the demands of implementing reform, or proreform intentions. In fact, the first democratic government of the Hungarian Democratic Forum (MDF) initially “came under fire for purging state officials associated with the communist regime, loading the bureaucracy with political sycophants, appropriating privatization revenues for patronage and meddling with the judiciary” (Bartlett, 1996). Instead, the considerable parity of influence, and even power sharing, among the political parties meant that parties watched each other’s gains carefully and could react effectively. For example, when the MDF tried to push through a politicized Hungarian Central Bank in October 1991, the opposition mobilized. The Central Bank was given considerable autonomy and made answerable to the parliament as a whole rather than to the prime minister alone. Moreover, even if politicizing policies were implemented, they were cancelled out by subsequent governments—the MSzP/SzDSz (Szabad Demokraták Szövetsége) coalition reversed several such decisions.

In Poland, the development of formal codes for the civil service and public administration were delayed by the extreme fragmentation, but informal constraints effectively limited the size of the public administration. Any one coalition’s attempts could be quickly reversed by its successor. Thus, when it came to power in 1993, the coalition of the SLD and the Peasants’ Party (PSL) replaced numerous civil servants and regional governors associated

with the previous Solidarity governments. Immediately before the 1997 elections, SLD Prime Minister Włodzimierz Cimoszewicz nominated 18 directors of general departments (out of 72) in several ministries, all of whom passed the easy civil service exam. However, when the SLD and PSL were replaced with the Akcja Wyborcza Solidarność-Unia Wolności (AWS-UW) coalition in 1997, many of these decisions were reversed. Several thousand second-tier administrators, including regional governors, were replaced. The flawed Act on Civil Service, passed in 1996 by the SLD/PSL coalition, was revamped and expanded in 1998, making the exams considerably more difficult, creating a class of public servants as a separate legal category, and making merit the determinant of both pay and position (Jabłoński, 1998).

The dispersion of parliamentary power meant that politicization by individual parties was short lived and subject to continual contestation. For example, the AWS-UW government went as far as to put parity of party representation on enterprise boards in their coalition agreement; if the chair came from one party, his deputy had to be from the other. Opposition parties agreed to this standard and declared they would hold it up when they got to power ("Interview with Marek Borowski," 2000). Thus, whereas domestic critics charged that the boards of state enterprises, government agencies, and local corporations were politicized, the dispersion of power also limited the concentration of resources. No party had the tenure in office or the numbers in parliament to effectively politicize the state.

In one-party dominant states, both informal and formal constraints were missing. In the Czech Republic, after the elimination of regional government in 1990, the central state government was in charge of staffing all levels of the polity. An "informal nomenklatura" arose; those seeking posts in the administration had to have the imprimatur of the leading political party (i.e., ODS). As one analyst noted, "an applicant for a management position had no chance without the appropriate party sponsorship" (Novotný, 1999). Moreover, the ODS named the boards of state- and semistate-owned enterprises and created parastatal institutions, such as insurance and bank boards, to consolidate its position.

The governing coalition not only continued to create and to accumulate positions in the central state administration, but it also refused to depoliticize the public administration. As late as 2000, the Czech Republic came under fire from the EU for making no distinction between political appointees and career officials and for not officially defining the category of civil servant (European Union Commission, 2000). After great controversy, a Civil Service Act passed in late April 2002, a decade after it went into life in Hungary

(1990-1992) and over six years after it did in Poland (1996). Immediately, the ODS announced its opposition to the law.

In Slovakia, Vladimír Mečiar and the HZDS continued to concentrate power and to explicitly politicize the public administration. The same lack of oversight and of regulatory institutions seen in the Czech lands also characterized Slovak state politicization from 1990 to 1992. With the rise of the HZDS in 1991 and its unquestioned victory in the 1992 elections, the process accelerated. The HZDS began its 1994-1998 term with “the night of the long knives” on November 3 and November 4, 1994, when an all-night session of parliament decimated non-Mečiarites from state administration. The HZDS then continued to pack the public administration with party activists and cronies, more than tripling the size of the public administration from 1991 to 1998. Despite opposition efforts (the HZDS government was twice briefly brought down), Mečiar’s popular support and the dependence of his coalition partners on the HZDS allowed him to politicize the state with little constraint. By siphoning off resources, the HZDS further reduced any constraints. The opposition grew increasingly poorer, demoralized, and unable to offer the selective incentives the HZDS could. Even as he left office, Mečiar’s last-minute law regarding state service placed 2,700 second-tier civil servants under risk of politically motivated dismissal (EU, 2000.)

With the arrival of the reformist of the SDK government in Slovakia in 1998, the distribution of posts continued, but now with parity for all the parties involved. The SDK first replaced all 79 local (okresní) leaders and all 8 regional (krajské) leaders loyal to the HZDS coalitions. It then distributed positions in state enterprises, banks, the oil sector, and insurance (Dilema, 2000). However, the dispersion of power led to a diffusion of such appointments; each party obtained other sectors.

The domination by one party also hindered the rise of formal regulation in both the Czech Republic and in Slovakia, and the few regulatory agencies established were under the control of the ruling party (e.g., the Supreme Audit Office and Federal Security Information Service (FBIS) were both under ODS control). Czech regulation of the market was minimal; bank reform was both delayed and minimal, and executive bodies “operated with virtually no transparency” (Freedom House, 2000, p. 229). Other external controls were in their infancy for most of the 1990s in the Czech Republic and in Slovakia, unlike in Poland or in Hungary, with their strong Ombudsman (Commissioner for Civil Rights) and Constitutional Court, respectively. Not only did such institutions not exist in communist Czechoslovakia, but there was no incentive to establish them after 1989—certainly not for the dominant Slovak and Czech parties.

### EXTENDING THE ANALYSIS

How well does this explanation travel to two regional "hard" cases? Slovenia has been primarily ruled by one party, the Liberal Democracy of Slovenia (LDS), from 1990 to 2000, yet its state appears far less politicized than this analysis would predict, with very favorable corruption ratings and only 1.4% of the employed in public administration (EU, 2000; Pozun, 2000; The World Bank, 2001). Bulgaria, meanwhile, has had considerable turnover, yet its state is heavily politicized (Ganev, 2001).

On closer examination, however, these two cases underline the importance of party competition. Thus, the Slovene LDS's hold on power was more tenuous than dominant because it was constantly and consistently controlled by an outspoken opposition, notably by the Social Democratic Party (SDS). Unlike the Slovak and Czech cases, coalitions were both unstable and differed from one term to next, with crises occurring in 1993, 1994, 1996, and 2000; and the 1996 election resulted in a deadlock between the LDS and the opposition. Subsequently, its coalition partners could further constrain the LDS. They extracted numerous power-sharing concessions from the LDS, and the government fell when they went over to the opposition in April 2000. Thus the LDS faced considerable informal constraints. However, because it retained policy-making power, formal constraints were sometimes delayed.

Bulgaria's frequent turnover of power did not result in state depoliticization for two reasons. First, the communist party, renamed the Bulgarian Socialist Party (BSP), did not exit from power during the transition, instead extracting as much as possible before it left power in December 1991. Its continued control over media, state resources, and information gave it a huge advantage over other parties and allowed it to politicize the state again when it reentered power in 1994. Second, the opposition in Bulgaria was very weak, brought into existence by the BSP itself, and unable to oversee and constrain the BSP (Karasimeonov, 1996). Such weakness allowed the BSP to retain its hold even when out of power (Ganev, 2001.) Even though turnover prevented the stuffing of public administration and allowed some formal constraints, such as the Civil Service Law passed in 1999, the weak opposition failed to constrain the BSP.

In short, these cases suggest that opposition can hamper politicization despite lack of turnover. Without turnover, however, parties have little incentive to formalize guarantees for electoral losers. (Parties in high-turnover systems have limited incentives to reverse earlier formal guarantees; even when they win a large majority, such parties are likely to leave office after one term.) Without an effective opposition, however, even parties in short-lived governments can seek rents without restraint.

## CONCLUSION

The postcommunist experience suggests that even where the authoritarian monopoly on the state ends, dominant new democratic parties can again politicize the state. A weak opposition and the consequent electoral certainty allow such parties to seek rents from the state with minimal constraint. Effective opposition and electoral uncertainty, however, constrain such efforts. These mechanisms may also underlie the correlation between turnover and the correction of policy mistakes (Orenstein, 2001) or inclusionary policy-making and reform (Hellman 1998). Effective, pluralist competition limits access to rent seeking and, instead, promotes mutual restraint from which public policy can benefit.

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