

When uncertainty increases cooperation

We can observe collective action or a lack of collective action between firms and parties depending on the breadth of networks and the level of uncertainty. I now explore this argument through party finance, because a major form of collective action between firms and parties takes place when firms finance party political campaigns in exchange for support.

Parties and firms both have reasons to pursue financing arrangements. Parties seek to maximize financial support to increase their political advantage. Firms' financing of campaigns constitutes an investment geared toward obtaining favors from the winner. A firm's decision to finance depends on (1) the likelihood of identifying the winner (which in turn depends on the degree of electoral uncertainty) and (2) the likelihood that the receiving party, if it wins, will actually deliver on the promise of favors once in office. The mechanism behind the second condition brings in the role of network density. The winner is compelled to deliver on a promise of assistance to the firm that supported the campaign if shirking can easily be detected and punishment ensues. Network density favors this outcome, because information flows rapidly, reputation mechanisms can operate, and a collective response can mobilize. Broad networks, in other words, make the informal and often hidden contracts behind party financing more enforceable. Firms feel more confident about supporting parties, and parties pay back by delivering favorable policies in order to maintain future streams of support.

When broad networks are combined with high uncertainty, as happens in Poland, the result is a virtuous form of collective action, which I call "concertation," and we observe the winning party exercising responsiveness to its supporters through broad distributive policies. Concertation sustains cooperation between parties and firms by facilitating the enforcement of agreements. In particular, political uncertainty presents parties with the threat of losing at the polls, and thus provides an incentive to pay back firms once elected or risk losing in the following election. Broad networks

provide an effective flow of information among firms, which are therefore more able to avoid parties that shirk on their campaign promises. The two factors together mean that pre-election agreements are secured by both the threat of noncompliance and the monitoring allowed by effective information sharing.

The result of this cooperation over time is the development of broad distributive policies, for two reasons that are also related to political uncertainty and broad networks. The first focuses on the supply side. Political uncertainty means that parties will seek financial support from an ever larger number of firms as they face the costs of sharp competition. As the number of supporters increases, parties have an incentive to provide their payback not in the form of innumerable selective handouts but in generalized, business-friendly regulation that will appease a broad constituency. This solution is more cost-effective and more defensible at the polls. The second reason why broad policies emerge from this configuration rests on the demand side. As examined in earlier chapters, broad networks in Poland (with a heavy presence of financial actors) imply that firms have cross-sectoral stakes and, therefore, preferences. Hence, regulation that is generally business-friendly is in demand by firms in this configuration.

The workings of political uncertainty are different when networks are narrow. When elections are uncertain but networks are narrow, the winning party cannot credibly commit to campaign promises, because defection will go undetected or unpunished by supporters. This is the situation in Bulgaria. The result is the impossibility of cooperation between firms and parties.

Finally, when political uncertainty is low and networks are narrow, as in Romania, the dominant party wins election after election and there is low expectation of a turnover of power. Because networks are weak, the dominant party is in an extremely strong position, as firms lack not only the incentive but also the means to coordinate any leverage against it. Hence, the dominant party exploits them for financial support, and firms are in a position of subjugation: they know that they need to support the dominant party if they are to hope to receive support and if they wish to avoid punishment, and the result is a clientelistic relation between parties and firms, and a patronage state.

WHAT BINDS PARTIES AND FIRMS?

Poland: stable party–business alliances

The case of Poland shows how high uncertainty and broad networks promote cooperation. Because uncertainty in Poland meant political alternation, the left and the right competed for supporters. The result was that both political sides developed a network of powerful and loyal contributors. In the short run, the arrangement required significant and individualized handouts to key supporters

when each party was in power. In the long run, however, as more and more firms in the country picked one side with which to align, the result was two increasingly broad and dense networks. Hence, over time, dynamic governing-party-firm relations moved from a prevalence of individual handouts to a prevalence of broad distributive institutions better suited to sustainably addressing the claims of the respective widening support coalitions. It is precisely the “arms race” derived by political uncertainty that promotes the alignment of increasing numbers of firms to one of the two political sides. The analysis of the Polish case below focuses on the early phase of individualized handouts to large backers. Evidence of the progressively higher rates of broadly distributive institutions is presented in Chapter 6, which discusses the impact of state types on governance.

The pitched competition between post-communist and anti-communist forces shaped the nature of political financing and reinforced the dynamic of strong links between political and economic actors that began to take shape right after 1989. It is still widely believed that the former Communist Party elites who seized economic assets as they transformed themselves into post-communist politicians were largely responsible for the promotion of insiders to prominent places in the business world (Solnick 1998; Gustafson 1999; Staniszkis 2000). Poland provides new evidence against this view, as parties that emerged out of the Solidarity movement were also repeatedly involved in scandals related to contacts with business. In fact, influenced by the sheer number of scandals, the public believed in 2000 that post-Solidarity politicians were far more corrupt than the post-communists. During the government of Jerzy Buzek (1997–2001) an unrivaled twenty-two ministers were dismissed, many as a consequence of corruption.

As this suggests, politicians in post-communist Poland have frequently attempted to exert influence over public and private assets. Their interest in these assets stems from a need for financing in order to retain power. Critical packets of extra money originated from political allies in large business in the form of a-legal donations (known as *cegielki*, or “bricks”) and free business services. Although these contributions were clandestine, available evidence confirms the importance and magnitude of covert contributions by firms and how the process of undocumented party finance was supported by a deficient legal framework governing party finances and poor monitoring and enforcement (Walecki 2000). Walecki (2005) offers an excellent discussion of the shortcomings of the laws regulating political parties and the bureaucracies charged with monitoring them. Walecki (2005) and (2007) highlights the role of plutocratic funding, the failure of parties to provide election expense returns, and the lack of adequate policing throughout the 1990s and early 2000s.

Few factors seem as important as personal ties in explaining which firms contribute to which party. This can partly be attributed to the fact that the programmatic differences on economic policy between the leftist SLD and the

rightist AWS were narrow (Brada 1996).¹ On industrial policy, political views had little meaning, since the room for fiscal expenditures was thin and budgetary demands pushed privatization and restructuring to the top of the policy agenda. Conversely, some issues were too prickly for discussion by either end of the political spectrum. For example, in 2000 no political faction would have dared to privatize Polish sugar. Even the last AWS and strongly pro-privatization minister of the treasury, Aldona Kamela-Sowińska (known as the “Iron Dame”), backed down from this proposal in the Council of Ministers.

In the context of intense competition and a long-inadequate system of official financing for parties, alternative strategies of campaign finance became commonplace shortly after 1989, when parties had access to assets that came from unofficial sources. For example, the Centrum Alliance (PC) was formed in 1990, and its source of financing was to be a newly registered company called Telegraf. The firm’s worth grew many times over, and this contributed to the PC’s subsequent development into one of the three large Polish parties (Walecki 2000; Paradowska 2001). The Kaczynski brothers, who reshaped Polish politics in the 2000s, were early activists in the PC.

Once in place, the situation proved hard to reform. It persisted partly because regulations failed to provide adequate means to stamp it out, and parties have not found it in their interest to design a more stringent framework for oversight. The Law on Campaign Financing of 1997 provided no means of supervising party financing other than declarations submitted after elections.² These are so general that it is hard to verify the size of donations. No disclosure was required of political donors, and only parties are required to provide reports summarizing their finances. Furthermore, no sanction is specified for violating the law (Walecki 2000: 86). This created a broad system of financing parties through firms, including state-owned firms (Walecki 2000: 113). The situation changed somewhat after 2000, when a system of broad public financing was introduced. It did not address the issue of the disclosure and monitoring of party finances, however. It simply added another layer of financial inflows that exists in parallel to illicit financing. Instead of decreasing the competition for funds, it has left Poland with a situation that Ikstens, Smilov, and Walecki (2001) describe as a party finance “arms race.” According to Szczerbiak (2006), electoral finance appears in the form of the direct financial support and indirect state subsidies that parties receive, but both types are supplemented by forms of patronage through the appointment

¹ Despite the narrow differences in policy, these parties were organized around a sharp post-communist versus anti-communist ideological cleavage.

² In 2000 campaign financing regulations restricted the types of contributions that could be accepted. Restricted sources of funding for presidential campaigns were defined in the law of May 25, 2000 (Dziennik Ustaw nr 43, poz. 488). Parliamentary campaigns were reformed on May 16, 2002 (Dziennik Ustaw nr 46, poz. 499). Political party financing was reformed in the law of July 31, 2001 (Dziennik Ustaw nr 79, poz. 857).

of party loyalists to state and quasi-state bodies, such as state-owned or partially privatized firms.

In this context, the left political parties assisted in the formation of a group of entrepreneurs who have been their strong supporters for much of the post-communist period. These ties brought financing to the left, but were openly portrayed as a political effort to create a domestic class of entrepreneurs in the face of intense foreign competition. This group included men such as Gudzowaty, who became a billionaire in dollars for his role as an intermediary in the import of natural gas to Poland.³ In exchange, Gudzowaty received vital support to expand his firms beyond gas supply. Rightist political parties perceived him as a stable ally of the left. According to his allegations, right coalitions in government were aggressive in their attempts to intimidate and dislodge him, allegedly even using the secret police.⁴

Other businesspeople also developed strong contacts with leftist parties that were vital to the success of their business. Among these was Piotr Bykowski, a rising member of the Communist Party until 1983, when he declined a job in the central committee of the Poznan region and left the party as an “unreformable organization” in order to become a capitalist (Gabryel and Zieleniewski 1998). His banking empire was created with the support of left parties. In keeping with Bykowski’s idea that “state bureaucrats are obligated in helping to create new economic solutions, which will serve society” (Gabryel and Zieleniewski 1998: 168), Bykowski placed many former government officials on his supervisory board. As an aide to Waldemar Pawlak, the socialist prime minister from 1993 to 1995, he worked closely with two ministers of foreign economic cooperation and persuaded the government to establish an institution granting export credits and supporting trade with the West. Effectively, this was an attempt to have the SLD–PSL government build a financial empire with government capital. The program was halted later by Włodzimierz Cimoszewicz when he was prime minister (1996–7). Bykowski’s Bank Staropolski declared bankruptcy in 2000 after Bykowski was arrested for allegedly transferring \$500 million of the bank’s funds abroad.

The left was not alone in creating and promoting a group of loyal entrepreneurs. The post-Solidarity groupings also had their protégé businesspeople. Like the SLD, the right attempted to cast the behavior of the political class toward firms as being not purely about economic gains. The interest in and need to create ties to the economy was critical in light of the sharp political struggle with the SLD. The support of domestic entrepreneurs also became an integral part of the discourse of economic development proposed

³ Although Gudzowaty has been a strong, open supporter of left politicians, he was also a major contributor to Wałęsa’s political campaigns. Gudzowaty insists that his support for Wałęsa was an indication of his enthusiasm for a man who brought about the end of communism in Poland.

⁴ Gudzowaty discussed the aggressiveness of right governments in an interview cited earlier.

by the right, however. One of the most visible individuals involved in this policy was Jan Kulczyk.

In 1993 Kulczyk, vice-president of the Polish Business Roundtable, the most elite business organization, suggested that Polish entrepreneurs should be able to buy SOEs with payment plans extended over many years. Upon receiving an entrepreneur's award in 1992, Kulczyk said, "I believe that Polish firms should remain in our hands. Instead, selling domestic capital to foreign firms should be a way of filling out privatizations" (Gabryel and Zieleniewski 1998). Again, the comments of the Democratic Union (UD) minister of privatization at the time, Janusz Lewandowski, testify to the concern with domestic development: "We decided on preferences, for example, payment in parts over time. This was a conscious choice against the best offer. Western groups have a tremendous advantage over us. Privatization created an opportunity for the rise of domestic groups" (Gabryel and Zieleniewski 1998). Hence, when Lewandowski put 40 percent of Lech Breweries on sale, he announced that only Polish business could take part. Kulczyk won the tender through his firm Euro Agro Centrum, and thus established his relations with the center-right coalition then in power. All Kulczyk's major deals – Lech and Tyskie Breweries, TPSA, Autostrada Wielkopolska – were concluded under right-leaning governments. He had such access that some transformed his name from Kulczyk to *kluczyk*, the Polish word meaning "key" (Solska 2012). Later that year the post-communist SLD returned to power and decided, through the Ministry of the Treasury, to raise the capital of the firm. Subsequently, the Treasury decided not to buy any new shares. Kulczyk, lacking capital, was forced to find an outside investor (South African Breweries). Thus, the SLD government succeeded in undermining Kulczyk's control of the company (punishing him for his affiliation with center-right parties) and limiting the distributional consequences of the deal.

Individual businesspeople who cultivated relations with political elites held massive fortunes but accounted for only a portion of business support. The privatization process, which often only partially privatized firms, enabled the political appointment of selected directors and managers to newly private companies. These directors and board members, often selected from the ranks of poorly paid but politically faithful bureaucrats, became loyal backers of their political sponsors. Banks also became a critical chip in the Polish post-1989 game of wealth accumulation by political actors. The struggle over their control and the involvement of national political figures, including the second Polish president, Aleksander Kwasniewski, illustrate the centrality of the struggle to control property and its connection to the political struggle between the communist successor parties and the Solidarity/post-Solidarity coalitions. Simultaneously, the race to appropriate assets for the national political contest also created the major banking institutions in Poland.

Throughout these moves, parties and firms became tightly allied partners in the struggle to increase revenue on both sides. There is an important distinction to be made between the race to control assets and the attempt to manage them,

however. Parties did attempt to politicize firms but they did not seek to interfere in their management. Describing the interaction with parties in an interview, one businessperson used the phrase “They govern but they don’t manage” (*Rzadza ale nie zarzadzaja*) to express the perception that parties did not have a coherent plan of firm development. What they sought was a reliable stream of revenue as part of a mutual exchange. This outcome was strikingly different from that of Romania and Bulgaria.

Romania: the state against firms

Romania displays low uncertainty and narrow networks, a combination that results in a patronage state. Party finance in Romania offers a potent and contrasting example of how the level of party competition structures the ability of parties to extract funds, and shapes firm incentives to finance political parties. Whereas parties in Poland were engaged in a sharp conflict between alternative ends of the political spectrum, Romania’s post-transition political history can be summed up as a period of rule by a group of elites emerging around the Romanian dictator Nicolae Ceausescu. These elites founded the National Salvation Front, which underwent several splits into competing factions. One of these factions, the Party of Social Democracy of Romania, eventually became the Social Democratic Party in 2001. President Iliescu and the PDSR/PSD dominated Romanian politics until the Romanian Democratic Convention was elected in 1996 – the first time that an opposition party was able to form a democratic government following success at the polls. The CDR was voted out of office after one term, however. Although there have been numerous splits and recompositions of individual political parties, the range of alternation is without question much narrower than in Poland or Bulgaria. In this context, the general situation of Romanian party financing leaves much to be desired. Regulations demand that a list of persons who have donated more than the equivalent of ten times the minimum wage must be published. This regulation is not enforced, however, and some parties, such as the Party of Social Democracy of Romania, never published such a list despite numerous scandals about illegal financing. The Liberal Party also never published these financial statements (Ikstens, Smilov, and Walecki 2001).

With such lax monitoring, Romanian political parties are able to aggressively seek out donations. In fact, in an interview one party official argued that “the main problem of party finance is to begin to apply the laws of party finance, not to create new ones.” In Romania, flaws in party finance laws are also intensely exploited by parties to receive funds from the state and private donors. These included the awarding of lavish public contracts to campaign sponsors and large-scale patronage to reward important donors (Gherghina, Chiru, and Casal Bértoa 2011: 22). According to Roper, Moraru, and Iorga (2008: 150), “The lack of transparency has led in certain cases to the transformation of the party’s finances into a private business. This mechanism starts

with the charging of ‘fees’ for candidates that are not reported, the obtaining of contributions that remain undeclared and the conclusion of contracts with companies owned by party members.” Matichescu and Protsyk (2011) argue that business elites are prominent on party lists as part of a system of clientelistic exchanges that provides parties with electoral funds and businesspeople with protection of their interests and, potentially, immunity from prosecution. They also point out that this dynamic has become stronger over time. The percentage of parliamentarians with a business background steadily increased in the period from 1990 to 2004 (Protsyk and Matichescu 2011: 214). The use of a closed-list proportional representation system until 2008 reinforced the ability of political party organizations to use positions on the party list to obtain campaign funds (Matichescu and Protsyk 2011). While we might expect an electoral reform to disrupt the ability of parties to trade seats in parliament for funds, the introduction of single-member districts had a minimal impact on the power of party leaders (Coman 2012).

To illustrate the Romanian dynamic of party finance, consider the following example: on November 15, 2003, PSD secretary-general Dan Matei Agathon announced in Botosani that the party had just 20 percent of the funds it needed to finance its upcoming electoral campaigns, according to the dailies *Adevarul*, *Evenimentul Zilei*, and *Romania Libera* (reported on November 17). Agathon said that party officials who wished to retain their current posts should immediately embark on securing the needed funds, keeping in mind that they would be judged by their performance. He added that prospective candidates had to contribute to the PSD’s electoral funds. Those candidates would have to raise campaign funds from private companies, to which they were to make clear that they could not finance other political parties at the same time.

Romania thus followed a quite different path, and firms there occupy a much more subordinate position than those in either Poland or Bulgaria. The comments of the PSD secretary-general offer an insight into the relationship between business and political parties in post-socialist Romania. The dominance of post-NSF elites created a rather surprising dynamic. Although Romanian politics was marked by a series of splits and party divisions among the group of elites that formed the initial National Salvation Front, these can be seen as conflicts within a narrow clique struggling for executive power. In this context, the left–right split is quite blurred, and parties that opposed each other in one election often became allies in a coalition government only a few years later. For example, between 2005 and 2008 the PSD was an opposition party after losing an election to a coalition comprised of the Democratic Party and the National Liberal Party (PNL). After various factional conflicts, the PD changed its name to the Democratic Liberal Party (PD-L). In 2008 the PD-L formed a coalition government with its former opponents, the PSD.

Strong expectations of dominance on the part of the post-NSF groupings conditioned business to seek ties primarily with politicians from these parties, but failed to create the conditions for lasting alliances as the dominance of a

single party made firms vulnerable to extraction. The long success of the PSD gave it an advantage in this search for financing. A business leader noted, “The PSD has the most of them, contributors, because there are many people who are benefiting from favors from them. It is not possible for a big businessperson to prosper without political connections.” The relationship between parties and firms was different from the partnership that had developed in Poland: business leaders had much more of a sense that parties had the upper hand in the relationship. Another top business owner observed, “We are providing a significant portion of the state revenues and they have to understand that they have to consult my business. But they don’t. They are the rulers and they expect the subjects to contribute.”

As a way around this dilemma, some powerful businesspeople tried to become major figures associated with a particular, personal, party. The oil magnate Dinu Patriciu has, for example, long been involved with the Liberal Party. In fact, he was one of the founders of the party, and worked to develop a political career at the same time as he was developing his fortune. Others established what could best be called vanity parties, such as the Humanist Party of Dan Voiculescu. This was essentially a personal vehicle through which to lend support to the PSD while also obtaining some security.

The remaining companies try to follow a “swinging” pattern when political opportunity presents itself, jockeying for favor from a member of the dominant coalition, which has thus far meant figures from the various centrist groupings of post-NSF elites. Hence, the difficulty that the opposition faced in gaining seats was related to the fact that it also had a difficult time raising funds. It searched for economic allies among firms that were unable to attract the protection of the PSD, often at an exorbitant cost.

This pattern was documented in a White Paper issued in May 2001, in which the government of Adrian Năstase charged the opposition CDR for allowing arrears to grow rapidly and using concessions to favor particular interests. According to the White Paper, debts to the Finance Ministry stood at an overall lei 7,393 billion at the end of 1996, before the CDR took power. Concessions accounted for only 10.6 percent of this debt. In contrast, the value of debts at the end of the CDR mandate, in 2000, was estimated at around lei 60,000 billion, with concessions related to 60 percent. Debts to the Work and Social Security Ministry at the end of 1996 were worth lei 3,671 billion, and by the end of 2000 they had surged to lei 45,000 billion, of which concessions accounted for 15 percent (Government of Romania 2001). This dynamic, according to the White Paper, was the result of the restrictive economic policies followed between 1997 and 2000, which had led to the “rapid de-capitalization of economic agents coupled with a surge in their indebtedness to creditors” that was tolerated by the CDR.

The White Paper was highly criticized by the opposition as a political smear campaign that attempted to place blame on the CDR for difficulties facing Năstase’s new government. Yet, if the data are reliable, they suggest where the

CDR's support lay within the economy: firms dependent on concessions that had not been able to obtain them under previous governments, and firms awarded concessions in an attempt to secure their future support and lure them away from the PSD.

Outstanding payments in the state sector diminished to the equivalent of 26.8 percent of GDP in the first half of 2000 from a high of 39.6 percent of GDP in 1996, during the CDR government. As the CDR's support did not come from this sector, it was able to call in the debts of large state-owned enterprises. In contrast, in the mixed-property sector, debt grew to 33.3 percent from 20.4 during the same period (Government of Romania 2001), reflecting the need of the CDR to offer more slack to such firms. A similar explanation could be offered for the rise in concessions. Combined with this first observation, the steep rise in concessions between 1997 and 2000 at the Finance Ministry and Ministry of Work and Social Security was a sign of the importance that giving out this form of preferences to private business held for the CDR. As the NSF and PSDR drew their support and finances largely from the state sector, they did not need to offer concessions to private firms.

Unsurprisingly, the PSD was able to leverage its political dominance into greater access to gains from illicit financing. Extracting money from the state sector was a key means of obtaining support. One method, for example, was for firms to place advertisements in newspapers. The firms would pay newspapers for "advertising," and the latter would funnel money to political parties. A telltale sign of this dynamic was when advertisements promoted unusual sectors. For example, a business leader pointed out in an interview that the control tower at Bucharest's Otopeni airport ran an advertisement despite the fact that it had no competition and there was no choice in the use of its services.

Over time, the dominant party was also able to attract well-known politicians. In the period leading up to and right after the 2000 electoral defeat of the CDR coalition, a series of senators and deputies migrated (*Stiri Politice* 2000). This mostly meant a move to post-NSF splinter groups such as the PDSR/PSD. Thus, Adrian Severin, Adrian Vilău, and Octavian Stireanu left the PD for the PDSR, the last giving up his seat in the senate for a deputies' seat. Similarly, George Pruteanu left the Christian Democratic PNTCD for the PDSR. Valentin Iliescu left the PUNR for the PDSR. Adrian Paunescu left the PSM for the PDSR. Trița Fanița was the leader of the PD and switched in 2000 to the PSD.

The lower degree of uncertainty in Romanian politics as a result of the dominance of the Social Democrats created a situation in which firms were unable to count on political alliances. The dominance of the Social Democrats also created a spiral of increasing support, as confirmed in the extent of party switching. As a result, there were none of the alliances between parties and firms that were such a central part of the Polish landscape.

Bulgaria: firms against the state

The case of Bulgaria displays high uncertainty and narrow networks, resulting in an inability to coordinate and in the prevalence of preying and violence against the state. Bulgarian politics since 1989 has been marked by instability and contention over basic reform issues. The Bulgarian Socialist Party (formerly the Bulgarian Communist Party) won the first post-communist parliamentary elections in 1990, with 48 percent of the vote and 52 percent of seats. The BSP's support was drawn from pensioners, peasants fearful of land restitution, and the technical intelligentsia. However, the BSP's policies were largely driven by the old *nomenklatura*. Its official platform consisted of support for reform, but at a gradual pace.

After a series of failed attempts to form a coalition, the “go it alone” government of the BSP leader, Andre Lukanov, lasted only until late 1990, when it fell as a result of a general strike. A transitional coalition government comprised of members of the BSP, the Union of Democratic Forces, and the Bulgarian Agrarian National Union (BANU) – a party built on the platform of agricultural property restitution – replaced it.

The country's first fully democratic parliamentary election, in November 1991, resulted in a near-majority for the anti-communist and pro-reform UDF. A coalition government led by the UDF in partnership with an ethnic party, the Turkish Movement for Rights and Freedoms (MRF), was formed. Despite the passage of a privatization law and a foreign investment law, this coalition collapsed in late 1992 under a vote of no confidence and pressure from the Bulgarian president, Zhelyu Zhelev, also of the UDF. A compromise produced a government of experts put forward by the MRF and supported by the BSP and a breakaway faction of the UDF. This government became increasingly unpopular, culminating with the crash of the Bulgarian currency, the lev, in 1994, which forced the resignation of the prime minister.

The BSP won an absolute majority in the pre-term election in December 1994, with the support of the Bulgarian Business Block (BBB), a new force in Bulgarian politics that proposed to fight for the interests of small business, offering a nationalistic message. The BBB's leader, Georges Ganchev, became a popular candidate during the 1996 presidential election. The BSP was heavily allied with newly emergent “*nomenklatura*”-based economic interests, with links that often ran directly to senior party officials. Despite a public commitment to macro-reform, these behind-the-scenes conflicts of interest led to reform inertia. Ganchev remained in office until February 1997, when a populace alienated by the BSP's failed and corrupt government demanded its resignation and called for a new general election.

The crisis caused tensions among factions within the BSP. At the 1998 party congress, a faction known as “the generals,” a reformist grouping of post-communist businessmen and former security officials determined to re-establish the party, cleared the top party ranks and installed Georgi Purvanov as leader

(BTA 1998c; *East European Constitutional Review* 1998). Little was heard of “the generals” movement after the financial crisis wiped out many of their businesses, but Purvanov’s presidential victory in 2001 strengthened the position of the BSP. “The generals” themselves moved to take over a number of companies making light firearms and armaments, one of Bulgaria’s strong export product categories.

Once again, a caretaker Cabinet emerged, appointed by the president. Stefan Sofianski, Sofia’s UDF mayor, became prime minister. By stabilizing the lev, proceeding with privatization, fighting corruption, driving down inflation, and vigorously purging the bureaucracy, Sofianski’s government gained popularity, serving until a pre-term parliamentary election in April 1997.

In the general election that year, a pro-reform coalition, the United Democratic Forces (UtdDF), led by the Union of Democratic Forces, won 137 out of 240 seats – a landslide victory. (Other members of the UtdDF included the Bulgarian Agrarian People’s Union, the Democratic Party, and the Bulgarian Social Democratic Party.) In contrast, the Bulgarian Socialist Party dropped from its 1994 majority of 125 seats to fifty-eight. Along with the Ecoglasnost Movement and the Aleksandar Stamboliyski faction of the Bulgarian Agrarian People’s Union, the BSP stood as a member of the Democratic Left electoral alliance. The UDF leader, Ivan Kostov, formed a government that pushed ahead with privatization, signed a three-year agreement with the IMF, and set up a currency board.

Mounting public concerns about corruption caused the UDF to lose popularity as the July 2001 parliamentary election approached, however. As one official put it, “In the previous [Kostov] government, deals were made against the interest of the state. There is no evidence of payments but either the person making these deals was stupid or there was a financial incentive.” The Bulgarian political scene was again disturbed with the entrance of the National Movement Simeon II. This also upset already weak party–economy ties, according to an official who said, “The arrival of Simeon (*Sakskoburggotski*) has destroyed the clear ties along left–right lines and reconstructed them for his party.” The SNM won the general election and formed a coalition with the MRF. This government again lasted only one term. In 2005 the Socialists attempted to form a coalition government with the MRF, but its proposed Cabinet failed to receive parliamentary approval. Ultimately, a grand coalition of the Socialists, the SNM, and the Turkish minority party emerged. The parliamentary election of 2009 led to even more changes in the party system. The most votes were obtained by a new party, Citizens for European Development of Bulgaria, led by the brash Boyko Borisov, whose career ranged from security policeman to interior minister and mayor of Sofia. The formerly ruling SNM did not even reach the 4 percent threshold and thus obtained no seats.

This shifting party system also had an impact on patterns of party finance. Despite a law on party financing delivered at the roundtable talks in 1990 and a replacement of this law with a new one on March 28, 2001, financing

irregularities are the norm. Official sources include public subsidy, own means, and income from assets and donations. Officially, anonymous donations can be equal to up to 25 percent of the public subsidy, which is determined for each election. The use of anonymous donations was seen as a major problem; as one politician noted, “The problem with party finance is that the audit mechanism is not very strong and there are still [speaking in 2003] anonymous donations.”

Balances of official party financing are available to the public, but BBSS Gallup International estimates that more than 80 percent of party finances are “non-transparent” and illegal according to the reporting standards of the law (Alexandrova 2002). According to the World Bank, 42 percent of Bulgarian companies have paid money to political parties in return for favors. This situation is allowed to persist because no effective means for the supervision of party finances exists, and officials are effectively unable to do more than rubber-stamp party financial statements (Ikstens, Smilov, and Walecki 2001). According to one official, “The real problem is that the available money is dirty money, which is controlled by people in the business community involved in the black, grey and even the regular economy.” As a consequence, another official concluded, “Many parties were using practices that ranged from the grey economy to plainly illegal practices to fund their campaigns.”

The prevalence of illegal party finance in Bulgaria reflects a larger dilemma: the fact that a group of strong societal interests faced an unstable party system. In this context, political actors were more dependent on a small group of firms than the firms on parties. Describing how parties are impacted by the business elite, a party leader said, “Most parties are infected by big businesspeople. The parties need to reform themselves and stop taking money from the grey economy.” Echoing these sentiments and pointing out that they have deep consequences for institutional development, an analyst noted, “The individuals who control the shadow business world persist in their activities undisturbed. Really this is a chain of corruption, which permeates all parties. Unfortunately, the Democrats are as corrupted as the Socialists, perhaps even more.” Moreover, narrow networks meant that economic actors beyond these small groups had a difficult time mobilizing coalitions. Monitoring through networks was weak, as well. High levels of uncertainty and narrow networks made it difficult for parties to make credible commitments to firms and for firms to monitor the fulfillment of electoral bargains.

FIRMS AND PARTIES IN POLAND, ROMANIA, AND BULGARIA

In each country, the incentives for firms to be loyal to a particular party were shaped by the extent to which firms could estimate the future political success of a potential political partner and the likelihood that favors would be delivered once in office. In both Poland and Bulgaria, the political climate created uncertainty for firms, yet, in the Polish case, broad networks allowed reputation mechanisms to operate. As a consequence, firms eagerly gave to their favorite

political side, because the latter could credibly commit to delivering favors. These were initially destined for a small circle of large backers. Over time the high level of political uncertainty and electoral competition caused an increasing number of firms to align themselves. As a result, parties distributed not only selective handouts but increasingly also broadly distributive regulation. By contrast, in Bulgaria, uncertainty combined with narrow networks undermined the ability of parties to enter into credible agreements with firms. The result was a lack of cooperation and firms engaging in open preying on and violence against the state. Finally, in Romania, the dominance of a coalition meant that firms were at the mercy of political elites who controlled the state.