

Keeping it Clean

the way forward for state funding of political parties

by Matt Cain with Matthew Taylor

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Foreword

I welcome the publication of *Keeping it Clean* by ippr. Political parties are essential to the democratic health of the UK, and the current system of funding them has contributed to the disenchantment with the political process. The present system is particularly difficult for the party in power, as recent embarrassments have shown. And without reform, I have no doubt that a future Conservative government and its donors would be similarly exposed to criticism.

In the last Parliament, my party supported the recommendations of the Neill Committee on Party Funding, namely that there should be tax relief on donations up to a specified limit. So did the Upper House and I was sorry that the Government felt unable to agree. My party has of course accepted, with some relief, the increased amount of Short Money that Neill recommended, and we now accept, along with other parties, Policy Development funds.

So the debate for all MPs is not whether there should be taxpayer support for political parties - there already is. The debate is whether we have got it right; and, if not, whether there is a consensus for change.

ippr identify the weaknesses of the current regime and set out a compelling case for reform. If there is to be more taxpayer support, politicians must respond to some of the current valid criticisms. I believe we spend far too much at election time, and the current cap could usefully be reduced. Some of what we do spend irritates the public by promoting a 'yah-boo' type of politics for which there is now little appetite. We should place a cap on the maximum amount of any individual donation, to avoid conflict of interest.

A new system should also encourage broad-based membership parties - by adding a contribution from the Exchequer to the amount they raise from individual members. It should not be a pretext for putting up one's feet and letting the taxpayer take all the strain.

Of course I understand both my Party's deep aversion to proposals to increase public expenditure, and the risks of adverse public comment to some of the suggestions in this document. But I don't believe we can stay where we are; and this document shows the way forward.

Rt Hon Sir George Young MP

Executive Summary

Since their birth as mass organisations, political parties have never been less popular. Fewer people identify with them, vote for them, or join them. These long term problems have created difficulties for parties in raising funds. This and the campaign ‘arms race’ between the major parties has led them to seek large donations from wealthy individuals. Since 2000 the Political Parties, Elections and Referendums Act (PPERA) has introduced a new transparency in the sources of party income. Many donations, some relatively insubstantial, have been accompanied by media rows which discredit the motives of the donor and the party. These rows only serve to increase the unpopularity of parties and to discredit mainstream politics.

The major political parties play a central role in our democratic system and cannot be left to go bankrupt. Public policy has already gone some way to recognising this. Parties get money for policy development and aid in kind through Party Political Broadcasts (PPBs), freepost at election times and the free hire of public buildings. In addition, the three main parties have also requested money for training candidates and the development of e-democracy. Further earmarked funds for ‘publicly acceptable’ party activities would be a tempting soft option. However, this would also create the need for complex rules and provide the temptation to find clever ways of circumventing them.

In addition to concerns about propriety, equity between parties is important. Large donations will tend to favour parties that are pro-business and those in, or on the verge of, power. A donation cap should be set at a level where the public can see that such a sum could not buy influence or leave politicians beholden to their funders. This can also help restore some trust in the political process.

We recommend the introduction of a £5,000 donation cap. This would leave all parties with a shortfall on current income. Bearing down on excessive party spending offers part of the solution. The 2000 PPERA introduced the principle of national spending caps, ending the spending ‘arms race’ of 1997. Caps on income and expenditure can help secure equity between parties.

In the context of spending caps and caps on donations, public support can be won for state funding for parties which encourage volunteer-intensive local campaigning rather than expenditure-intensive bought media campaigns. But for state funding to work, it needs to be linked to a party’s activity level. We argue that a new principle needs to be established: parties should be given an incentive to recruit and retain members and small donors. While the democratic argument for mass membership parties is strong many party activities (including recruitment and retention) cost more to run than they generate. A system of ‘Tax Relief Plus’

that incentivises the donor and rewards the party will create the necessary incentives and rewards to enable parties to retain large memberships. For example, a maximum donation of £50 might attract £50 from the state while a £100 donation might gain a £80 top-up. This would reward small donations more than larger donation.

Existing free communication channels for parties - PPBs, freepost for election addresses and free room hire - should be modernised. For example, a national call-centre '0800 ELECTION' could see voters pressing 1 to speak to Conservative volunteers, 2 for Labour and so on. An interactive element on digital TV could enable voters to compare the parties' health policies. Parties would still provide the information to voters but the state would be providing modern platforms for parties to communicate with them.

The Institute for Public Policy Research's (ippr) qualitative research highlighted a number of points which undermine traditional opposition to state funding. The public does not generally distinguish between the different costs of politics whether this is paying for parliament, MPs' salaries or government advertising. Many think they already pay for parties. Banning large donations and imposing further caps on expenditure could reduce fears over the taxpayer funding party profligacy. There is some support for encouraging parties to raise small donations.

However, if a political party is implacably opposed to state funding it should not be forced to rely on it. ippr argues that a voluntary system of state funding would allow those who believe high value donations are more acceptable than state funding to persist with current practice. If a party is prepared to accept a cap on donations then it can be eligible for state funding. However, if it does not want to receive state funding then it doesn't have to accept a cap of donation. The parties will still be subject to the transparency requirements and spending limits that are already in place.

In the context of further regulation of political parties, there will need to be tight rules to ensure that large donations do not simply flow into election campaigns through other means. The 2000 PPERA has already put in place extensive regulation of third party campaigning activities during election campaigns. These require disclosure of donations and set spending limits. The Electoral Commission will need to be vigilant on this issue and should have the powers to ensure that the spirit of the law is upheld.

Restricting the freedom of organisations could give more power to the media. The broadcast media is already subject to extensive regulation in Britain but newspapers do not have to abide by the same rules. During previous election campaigns, particularly in 1992, there have been concerns that there has not been a clear distinction between news reporting and editorial

opinion. The Press Complaints Commission (PCC) should work with the Electoral Commission to ensure that the PCC's code is implemented and that parties have a swift right of reply to reporting that does not distinguish between comment and fact.

A stronger regulatory regime should be enforced by an enhanced Electoral Commission. The Commission should be able to act in an advisory, supportive capacity to help political parties abide by the spirit of the new laws. However, it should also have quasi-judicial powers to ensure that its advice to parties can stand up in court. Powers of audit and inspection will provide the public with reassurances that state funding rules are being observed.

This inquiry was established in order to identify political areas of cross party consensus for reform. Should our framework gain broad assent we hope the Electoral Commission's more detailed work will examine the details of a new funding regime.

1. Introduction

'Parties must ever exist in a free country'. So said Edmund Burke and the Westminster model of democracy has supported this assertion ever since. Today political parties have never been less popular. Fewer people vote for them, identify with them, are members or activists than ever before. This has led some commentators to ask if there is 'a crisis of democracy'. The low turnout at the last two general elections has underlined opinion research which shows disenchantment with politicians, parties and political institutions.

There is a wealth of statistics which give some idea about why parties and politicians are unpopular. The breakdown in deference and tradition has affected many key institutions of state: government, parties, the Church. The declining importance of in class cleavages has reduced the natural bases of support for parties. Trust is thought to be a key indicator of unpopularity: if you can't trust parties, why support them? The growth of 'sleaze' stories, accusing politicians of wrongdoing, over the last ten years has chipped away at the trust that people have in politics.

The funding of political parties touches on both of these problems. The unpopularity of parties and their declining base makes it harder for them to raise funds from supporters. Part of the response from parties has been to look for alternative ways of raising money. This has meant courting wealthy individuals in the hope of large donations. At the same time, the lack of trust and the growth of sleaze stories has encouraged public scepticism. This trend was accelerated by the new transparency requirement of the PPERA. There has been a recent flood of media stories questioning the motives behind large donations.

This is a vicious circle. Parties cannot rely on funds from their grassroots membership and supporter base because this is shrinking. So they pursue donations from wealthy individuals. These are almost invariably accompanied by accusations of sleaze which further reduce the confidence in politicians, reducing support for parties and so it goes on.

Policy context

Reforming the funding of parties can go a small way to removing suspicion and making the system fairer and more democratic. However, the complexity of the issue means that the debate tends to get quickly bogged down in technical detail and practical objections. This leaves possibilities for the political point scoring which has hampered reform in many countries.

The PPERA was introduced in 2000 and was intended to restore some public confidence in the way that parties are financed. Its key measures were a cap on general election spending and an obligation for parties to declare all donations over £5,000. It contained a number of other recommendations which have changed the nature of party finance. The requirement for companies to seek shareholder approval before making donations has accelerated a decline in corporate donations. There has been the successful implementation of a ban on foreign donations. This followed a number of concerns over the Conservatives' receipt of foreign donations and claims that political donations were linked to honours.

However, despite increasing regulation, transparency in party finances has led to a large number of stories accusing donors and parties of unethical behaviour. The Electoral Commission, the new statutory body which oversees the regulation of parties, publishes quarterly reports revealing donations to parties. When the reports are published there is intense media scrutiny, examining whether a donation can be linked to a particular policy decision.

Why reform?

It may seem odd to be arguing for reform so soon after the introduction of the most radical overhaul of party funding since 1883 (Fisher 2002). The PPERA has brought into focus a number of short term and longer term issues which need to be tackled. It has highlighted that party funding needs to operate on a fair basis, tackling the perception money buys political influence. However, the rules need to do this while leaving parties with enough money to carry out their core democratic functions, particularly being able to communicate effectively with voters.

In the longer term, a number of developments have created structural problems in party finance. The growing cost of campaigning has seen parties spend increasing amounts of money, particularly during election times. The Labour Party and the Conservatives were engaged in a campaigning 'arms race' for much of the 1990s, competing against each other to spend more money. The decline of parties' traditional bases has deprived them of some natural constituencies of financial support. These developments have seen a shift towards 'high value fundraising' where parties solicit large donations from wealthy individuals. This is now accepted practice and parties are increasingly reliant on such gifts. The final development which has caused structural problems in party finance, is the increasing demand for transparency. The media and the public demand the right to know how politicians are funded. Before the PPERA came into force the Labour Party received two large donations which they were not legally required to disclose; intense media and public pressure forced their hand.

The new principle of transparency enshrined in the PPERA has raised the profile and frequency of stories about party funding. This new attention has caused a number of rows over donations: Enron, Mittal, PowderJect all spring to mind. There has been a corresponding

pressure coming on donors accused of seeking undue influence and from institutional donors to parties, particularly trade unions being pressed on 'what they get for their money'.

Why ippr?

A belief in democratic renewal is central to the work of ippr. This inquiry was established in order to address the structural problems in party finance and the affect that this has on public trust in politics. The need for fairness in party funding is key to ippr's approach. This was a key theme in Martin Linton's report for ippr on the issue in 1994. State funding of political parties will not on its own usher in an era of confidence and trust in politicians. However, at the very least, it will reduce the regular stories linking political donations with allegations of wrongdoing. More optimistically, it can compel parties to undertake more grassroots activity while ensuring that they are focussed on spending the money more effectively.

ippr's aim in this project was to build a cross party consensus on principles for reform. By identifying basic principles we have attempted to bring some clarity to the debate. The inquiry has also established basic principles that can be supported by a wide spectrum of politicians and others in civil society.

We are modest about the scope of this research. In the six months of the project, there has been a shift to open a debate on state funding for parties. Some of ippr's recommendations will help this debate. However, there are still important details to be worked out. The Electoral Commission's longer term inquiry will be able to do this.

Methodology

The inquiry has been based on a literature review of existing expert opinions on party funding, a series of soundings with senior politicians and party officials and a seminar which focussed on party finance. The research has been informed by a visit to the US to look at the campaign finance reform debate and a study of different aspects of the systems in Germany, Canada, Sweden and France. A private seminar was held where Dr Justin Fisher presented a paper, available on the ippr website.

A comprehensive review of international systems, undertaken by the International Institute for Democracy and Electoral Assistance (IDEA) has been invaluable and will be published shortly in the IDEA Handbook on Funding of Parties and Election Campaigns.

ippr also conducted four focus groups to explore public attitudes to the funding of political parties and to test options for state funding. The four groups were held in two different areas - Stockport and Northampton - and were structured according to age cohorts.

2. Existing principles

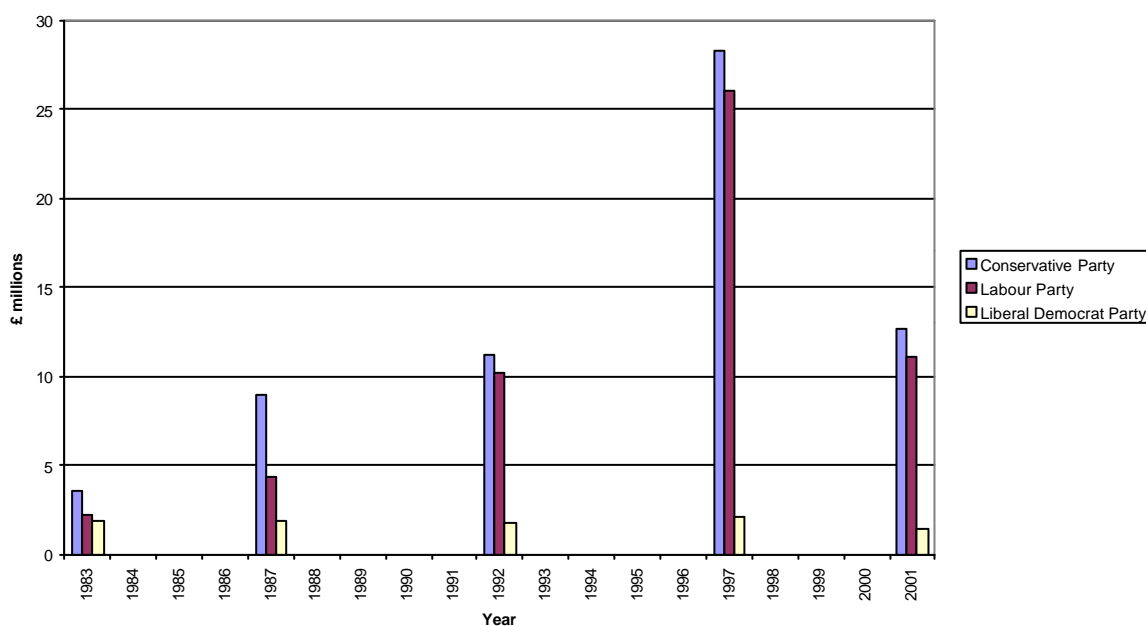
The recommendations in this report are radical and far-reaching. However, at the core of the new system we propose lies the development of two existing measures governing the regulation of party funding. In this chapter we examine these measures, their application and their implications. The first measure is the capping of campaign expenditure. The second is the provision of state funds to political parties for purposes that are deemed to be in the public interest.

Spending caps

Constituency spending has been limited ever since the Corrupt and Illegal Practices Prevention Act of 1883, which sought to reduce the impact of money and the scope for bribery in general elections. This formed the basis for subsequent Representation of the People Acts (RPA) laying down a relatively low limit for local expenditure in elections.

In recent years, concerns about party funding led to the review conducted by the Committee on Standards in Public Life: the Neill Committee. In 1998, the Prime Minister asked the Committee to 'review issues in relation to the funding of political parties and to make recommendations as to any changes in present arrangements' (Hansard 1997). One of the Neill review's primary concerns was the massive cost of the 1997 election campaign, during which the Conservative and Labour Party each spent over £40m in total. This was the culmination of

Figure 1. General Election Spending



Source: *The Funding of Political Parties in the United Kingdom: Committee on Standards in Public Life* vols. 1 and 2 London: TSO (1998)

escalating spending on election campaigns during the 1980s (figure 1). This process was characterised as an 'arms race' driven by competition rather than by any rational calculation of cost and benefit. As one Labour Party official put it: 'we needed to spend as much as the Tories as part of the competition. We wanted to match the Tories in every respect' (Private information).

The Neill Committee addressed the increasingly limited scope and relevance of the RPA. The growth of expenditure both before and during the election campaign, promoting a party and its field of candidates but not explicitly targeted at a specific candidate, fell outside the RPA and was effectively unregulated. This problem was exacerbated by the targeting of central resources on a list of 'key seats' making a mockery of constituency spending limits.

The Neill Committee responded by recommending the introduction of national expenditure limits. The Government adopted the recommendation and the cap was set at £20m, adjusted slightly depending on the timing of the election.

In fact, in 2001 none of the parties came close to the campaign limit. The caps appear to have been applied successfully. The arms race has been halted with little evidence of parties' capacity to campaign and communicate being impaired.

Given this, why had parties not acted rationally in raising and spending money? First, as we have said, rather than calculating the amount that was required to get across their message, Labour and Conservative campaign managers tend to focus on how much their rivals spend. Secondly, academic evidence highlights the importance of local campaigning and its significance in producing unexpected results (Denver and Hands 1997). This suggests that local expenditure - which is capped through the RPA - is pound for pound more significant in its impact than national expenditure. In other words, the relative increase in national as against local campaign expenditure was driven not by a cost benefit calculation but by the fact that local expenditure was capped while national expenditure was not.

ippr's qualitative research has highlighted public concern over the waste in party finances. Respondents in our focus groups were shocked at the amount spent by the two main political parties. A lower spending cap would reassure the public that the money was being spent well.

We believe that a yearly cap is necessary to guard against excessive party spending. This would not be intended to unduly limit the activities of parties but to reassure the public that they were spending prudently. There is also the danger that without caps in non-election years, parties could spend a considerable amount on campaigns that influenced the electorate. This would then undermine the general election cap.

Recommendation: The cap on general election spending should be brought down further and kept under review by the Electoral Commission. Yearly caps should guard against excess and abuse.

Case study 1: State funding without caps

In Germany, there is a total ceiling of €118m on the amount that can be given to all political parties. Typically, state funding accounts for between 30 and 50 per cent of a party's overall annual income. The legal emphasis in Germany is on transparency and disclosure, rather than limits. There are no legal limits on political contributions or on any type of spending. Disclosure is required for donations of over €9600. The scandal that brought down Chancellor Kohl, in 1999, was over the non-disclosure of donations.

Source: www.bundestag.de

Committee on Standards in Public Life (1998)

Public interest

The second key plank in the present funding regime (which has gradually expanded in significance over the years) is the funding by the state of campaigning and other party activities deemed to be essential to the democratic process and therefore to be in the public interest. Parties remain the only organisations that recruit people to stand for public office on a policy platform that aims for a cohesive government at a local, regional, national or European level.

Case study 2: Supporting public good functions

In Sweden, there are subsidies for parties represented in parliament and non-parliamentary parties represented at a local level. Since 1969, county councils and municipalities have given grants to local parties to improve information on local government. This grant is split between a fixed sum and an amount weighted to the number of seats that each party holds. These local subsidies were worth, in total, three times the amount of the national subsidies or €47.5m

Source: Nassmacher (2002 forthcoming)

Linton (1994)

Parties are provided with platforms to communicate with voters. Often this assistance is 'in kind'. Candidates receive freepost for their election addresses during a general election and all candidates have the right to hire public buildings free of charge. Parties that are standing in more than 50 seats are given the broadcast time to make party election broadcasts (PEBs) and parliamentary parties, party political broadcasts (PPBs) at important dates in the political calendar. State funding has recognised that policy development is an important part of an

effective democracy. 'Short Money' was first introduced in 1975 to ensure that opposition parties had the finances to formulate alternative policies to government. Margaret Thatcher was the first Prime Minister to be elected with state funding. More recently, the Policy Development Grant introduced a measure of the PPERA and gave all parties an annual grant to fund policy formation.

However, these current forms of state assistance are inadequate. They have developed gradually and in a piece-meal fashion. The platforms funded by the state are based on older methods of campaigning. The Electoral Commission's review of PPBs was partly triggered by their lack of legal standing as they are often subject to challenges from smaller parties. There are no clear statements of principles for the reasons the state provides assistance in kind. This led to protracted wranglings, particularly in the House of Lords, when freepost for candidates was introduced for the new Greater London Assembly (GLA) elections. The allocation of state assistance should be transparent, predictable and effective.

There are also problems with the state support for policy development. The current description of Short Money allows opposition parties to 'communicate alternative policies to those of the government of the day'. 'Political campaigning' is not allowed (Hansard 2000). There are also difficulties with the allocation of the Policy Development Grant. The formula is worked out between the parties and the Electoral Commission. This could see some parties building alliances to the detriment of other parties.

Mass membership of political parties is in the public interest as it allows parties to be more representative of the public. Recent research has highlighted the challenges parties face in recruiting a suitably diverse group of candidates for public office (Ali and O'Connell 2002). All parties need to find mechanisms for promoting members within their parties as well as recruiting a more diverse membership. This should result in political institutions which are more representative of society.

Parties have created more extensive internal democratic processes to involve their members. The Conservative Party has held all-member ballots, introduced under William Hague and the Labour Party introduced 'Partnership in Power' which has recently been strengthened. The Liberal Democrats have an inclusive decision making structure, reflecting their federal makeup. These processes are costly for political parties but are also a good in themselves.

Recommendation: State funding based on the activity levels of a party

Case study 3: Broad base membership

In 1992 the German Constitutional Court recommended that state funding should be related to the amount that a party can raise from its supporters rather than just the votes that it receives. A subsequent commission came forward with proposals which recommended that in addition to funding based on votes, a party would be entitled to DM0.5 for every DM1 which it receives in subscriptions and donations. Currently, the SPD has approximately 700,000 members paying €100 each.

Source: Committee on Standards in Public Life (1998)
Nassmacher (2002 forthcoming) and private communication

In the context of a spending and donation cap (see Chapter 3) it is legitimate for the state to fund campaigning activities. The spending cap and a donation cap are linked. Whilst campaigning is a legitimate activity for parties, the taxpayer has to be assured that the campaigning is rational and efficient and not simply driven by an arms race.

This may appear to be an argument in favour of hypothecation, where the state funds some activities of parties which are deemed to be ‘publicly acceptable’. Although this may be a tempting option, it would not tackle the longer term problems in party finance. There are two major problems with hypothecation. Firstly, hypothecated state funding is an illusory subsidy for planned party expenditure, simply freeing up more money for parties to spend on other areas. Secondly, there would be much scope for abuse. Extensive hypothecation would be bureaucratic with inspectors or auditors trying to determine which activities were eligible for state funding.

ippr is advocating a system of ‘Tax Relief Plus’. This would reward parties which are successful at raising a large number of small donations. The system should be tapered in favour of smaller donations, perhaps up to £100. For example, a £50 donation might attract a £50 top-up from the Treasury while an £80 donation might get a £30 top-up. It is important that the system is based on a financial commitment by the party supporter rather than just signing a form or expressing support.

Conclusion

This chapter has argued that there are a number of existing principles that can be extended and modernised to improve the funding of political parties. It has made the case for more extensive state funding, operating in a more transparent way. However, this has to come with public reassurances over the nature of party finances. State funding is acceptable because the only realistic alternative is that parties raise the money from high value donations.

3. Big donations

The PPERA introduced transparency for large donations to political parties. However, it has exposed parties' reliance on big donations. This presents two problems for the current funding regime. The first is equity and the other propriety.

Equity

Parties whose policies can be seen to favour business or the very rich will tend to be better placed to raise large donations from business or wealthy individuals. The degree to which party platforms can appear to reflect interests of corporations has been exposed particularly acutely in the United States. However, all parties are partially reliant on rich donors. So whilst the need for large donations remains, some parties will find it easier to raise funds than others. The Conservatives have received the largest single donation of any party: £5m from Stuart Wheeler of IG Betting Group and £5m from Sir Paul Getty, the oil magnate. In contrast, the Liberal Democrats' annual income is below £2m.

Parties in power find it easier to raise large donations. The Conservative Party funding base has decreased since they have been out of power, with fewer individual donors willing to give. In recent years Labour has received a greater share of its income from large donations. In some years they have actually raised more money in this way than the Conservatives. The Liberal Democrats have never received a donation of over £1m. Grassroots fundraising is expensive for parties and often costs more to run than it raises.

Propriety

Large donations leave parties open to allegations of impropriety. While there has been no evidence of wrongdoing in any of the recent rows over donations, doubts remain because of the complexity of decision-making and political networks. Firstly, decision-making is too complex to identify whether or not policy decisions, or politicians' actions, are affected by knowledge of a donation. There is a public perception that 'nobody gives that sort of money for nothing' and the reality is that only the small group of people involved in a decision could ever know whether it was made in connection with a donation.

Secondly, there are particular problems with access to politicians and government. Most people would accept that the head of an organisation receiving a gift would meet with a large donor to thank them. This is a widely established part of high value fundraising. Indeed members of the royal family will meet with high value donors to the charities with which they are associated. However, when a political party is in power, it has a dual existence as the

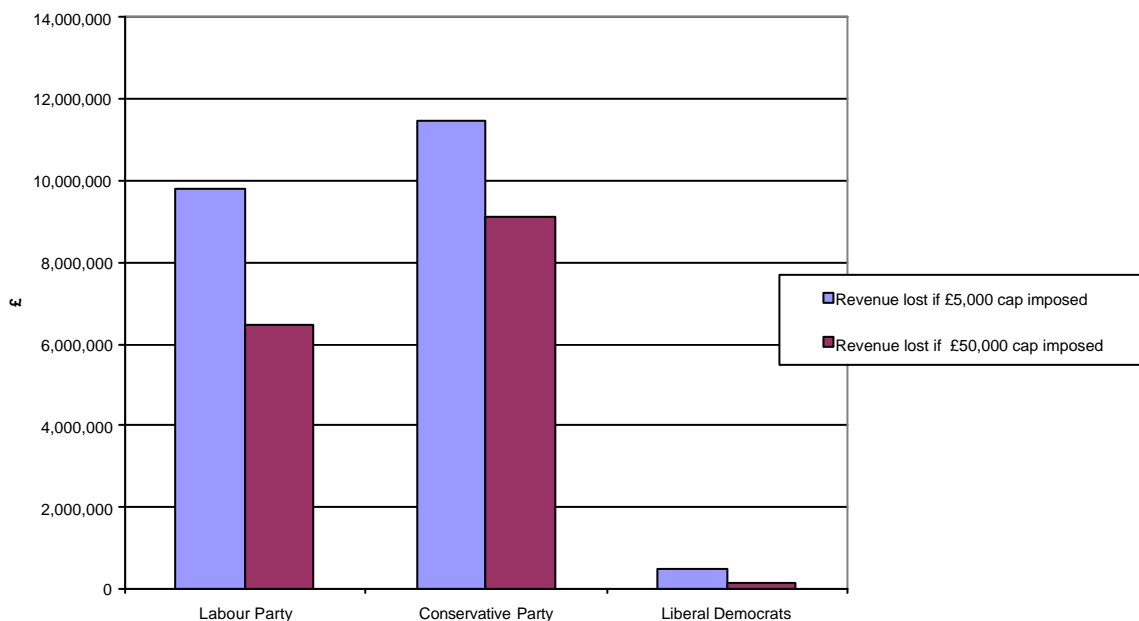
government and a political party campaigning to win the next general election. Problems arise when a donor meets with a leading member of a party organisation when he or she is also a member of the government. This problem of role definition means that high value donations for parties in government attract particular problems. Of course, when a high value donor funds a charity it is also possible that they may meet a Minister. The crucial issue is that the politician is not seen to benefit in the same way. There is doubt in the public mind because the politician's and the party's interests are seen to be one and the same.

ippr's focus group research found that 'people are unanimous in questioning the motives of major donors'. The consensus is 'you don't give something for nothing' (Edwards 2002). Respondents who were less supportive of a donation cap were more disengaged by politics and tended to argue against on grounds of pragmatism rather than principle. It was clear that the public would need to be reassured that a donation cap would not be tokenistic or open to loopholes.

A consensus became apparent during our research that the donation limit should be set at a level where the public perceive that a donation could not buy influence. Our modelling suggested that the gap in party finances left by a £50,000 cap would not be much different from a £5,000 cap (see figure 2). A £5,000 cap has distinct advantages. Logistically, the transparency threshold appears to have worked. It is neither too low, and therefore bureaucratic, nor too high to have an impact.

Our qualitative research indicates that a £5,000 level would convince the electorate that a

figure 2. Effect on party revenue of different donation caps



donation did not have improper motivations (Edwards 2002). A lower cap also ensures that easy methods of abuse (such as ‘rolling up’ donations in families or firms) have little impact. It makes a clear statement of intent to the electorate: that money will not be allowed to buy influence within politics and it ensures that any attempted abuse of the system would be relatively futile. For example, one obvious abuse is for a wealthy donor to ‘bundle’ donations.

A donation cap of £5,000 would invalidate the current transparency arrangements. However, this is an important principle that underpins most party funding regulation around the world. Therefore, we recommend that all donations over £1,000 should be declared, which is the level that currently applies to local parties.

Case study 4: Avoiding big donations

In Canada the Act Governing the Financing of Political Parties was adopted in 1977. Contributions can only be made by individual voters using their personal assets, usually a cheque drawn on a personal bank account. No individual is allowed to contribute more than \$3,000 (Canadian dollars) a year at national level and \$1,000 at municipal level. The name of every individual who contributes more than \$200 is published in an official public register. There are some reports of abuse to the system but these are through illegalities rather than loopholes. For example, there is evidence that companies have attended a party function and each of their employees have written a personal cheque for \$3000 only to reclaim it on expenses. However, ‘outright violations of the law are very rare’ (Nassmacher, 2002)

Source: Quebec Matters (1999)
Ewing (1987)
Nassmacher (2002 forthcoming)

Labour and Trade Unions

Many argue that trade unions’ distinct constitutional relationship with Labour means they should be exempt from a donation cap. We disagree. Our recommendations set out to remove the perception that money buys influence and trade unions cannot be treated differently from any other donor. Some senior trade unionists and Labour Party officials have already recognised that there needs to be a separation of the political and financial relationship (private communication).

Funding reform would require a change in the financial relationship between affiliated unions and the Labour Party. It is not our place to stipulate how this should work. Individual trade unionists could be encouraged to join Labour directly, with this facilitated through their trade union. The constitutional affects of this would have to be worked through by the Labour Party and the trade unions. We believe that this could strengthen their relationship rather than weaken it. Individual trade union members could have a direct relationship with Labour. This would enable a closer integration between the different affiliated parts of the Labour Party through closer personal links at a local level.

There are separate problems for the Co-operative movement. The Co-operative Party is a registered political party and supports members who stand for election as ‘Labour and Co-operative’ candidates. It also makes donations to the Labour Party. However, a significant proportion of its funding comes from the Co-operative Wholesale Society (CWS). This business has members rather than shareholders but there are probably too many and the balloting arrangements too complex for them to be consulted on political donations. This unique situation needs further consideration by the Electoral Commission.

Recommendation: Donations should be capped so that no individual or organisation can give a political party more than £5,000 in a financial year. Donations are defined in the same way as the donations that parties have to declare currently to the Electoral Commission.

4. Other considerations

Changes to the party funding regime will have particular effects on party organisations, the media and other campaigning organisations. Our recommendations account for their wider implications.

Voluntary system

We advocate a voluntary system of state funding. Political parties that are opposed to state funding should not be forced to rely on it. They should still be able to decide their organisation and structure independent of the state. Parties will be eligible for state funds, based on their activity level, in return for accepting a cap on donations. The spending caps and existing legislative requirements will apply universally.

Case Studies 5 & 6:

State funding linked to spending caps

When an American Presidential candidate becomes the nominee for their party, he is eligible to receive a public grant. In exchange, the candidate cannot spend more than the grant or accept private contributions. This grant was worth \$67m in 2000. There are problems with 'short money' meaning that party building activities do not count as campaign spending and the separation between spending on a state and a federal level creates further loopholes. The second fundamental problem with this method is that candidates only have to abide by spending caps if they agree to state funding. All are bound by notional donation caps. Therefore, if one candidate has the capacity to raise significantly more money than their opponent, s/he will be able to outspend his opponent. This simply encourages the campaigning 'arms race'.

Source: Potter (1997)

State wide voluntary system

Candidates for elections in Vermont are eligible for state funding for their primary and general election, once they have received a set amount of small contributions from a number of voters. The amount they receive in state funding is that candidate's spending limit. However, if they are outspent by an opponent, this limit may be exceeded with the candidate becoming entitled for supplementary state funding, based on dollar for dollar matching funds. Independent expenditures by other groups that benefit a candidate's campaign may also trigger the allocation of matching funds.

Source: Breslow, Groat, Saba (2002)

Media

There is a concern that limiting the capacity of parties to campaign could place too much power in the hands of the media, in particular the press. Although the spending caps proposed here will not unduly limit parties, we are concerned at the potential power of the media during election campaigns. Newspapers are currently lightly regulated compared with the broadcast media which has to ensure a balance in political reporting under the RPA (1983). Furthermore, because their broadcast output includes PEBs, there is a guaranteed diversity of information.

Newspapers are bound by self-regulation. Their code of conduct, overseen by the Press Complaints Commission (PCC), states: ‘newspapers, whilst free to be partisan, must distinguish between conjecture, fact and opinion’. No political party has taken a case to the PCC during an election campaign. However, there have been well-documented fears over the tone of newspaper coverage, particularly during the 1992 general election. Some coverage of William Hague before the 2001 election also blurred the boundaries between editorial comment and news reporting.

Partisan criticism in a newspaper can cause damage to a party. A series of headlines against a politician or party can help create a lasting image. However, parties do not usually have the spending capacity to counter such high profile coverage. More importantly, the current system operates too slowly for effective redress during election campaigns.

Recommendation: A Standing Joint Working Party of the Press Complaints Commission and the Electoral Commission should meet during general elections to monitor newspaper coverage. Newspapers that do not distinguish sufficiently between conjecture, fact and opinion could be forced to carry a reply from the aggrieved political party.

Third parties

There are also concerns that other campaigning organisations will become more influential than parties. This could happen if they are allowed to spend competitively against parties or attract the donations a party would otherwise have received.

There is already some regulation in place. Organisations that wish to campaign during a general election but do not stand candidates for office must register as Third Parties with the Electoral Commission if they wish to spend more than £25,000. Registration limits their national expenditure to 5 per cent of the national limit for parties during the campaign and requires them to declare the expenditure. Furthermore, they must have a separate political fund and declare all donations they receive over £5,000.

We believe that the regulation needs to go further. The rules only apply during election campaigns. This means the same problem arises: that parties can spend unregulated amounts to influence the electorate before the election campaign. In addition, it is perfectly possible for campaigning organisations to legitimately splinter into different groups in order to circumvent the spending restrictions.

However, some of the activities of campaigning organisations should be encouraged as they offer alternative sources of information to voters which may be more relevant to their particular interests and concerns and many engage their members in the political process. In the present climate, political parties need all the help they can get to motivate people to vote. Campaigning organisations act as an important bridge between civil society and formal democratic politics. On a fundamental level, the involvement of these organisations in election campaigns underlines the importance of democratic institutions.

Recommendation: The Electoral Commission monitors the activities of third parties. The spending cap and transparency threshold for third parties should be reduced in line with the new requirements for parties. The legislative framework should ensure that third parties are encouraged to communicate with their members but cannot seek to become proxy campaigners for particular parties.

5. Recommendations

Our nine recommendations are intended to provide the basis for a consensus.

Lower general election spending cap with a yearly spending cap, reduced over time. Transparency for all donations over £1,000

The general election cap should be reduced to £12m and remain under review by the Electoral Commission. A yearly spending cap should be introduced of £20m, being reduced over a period of five years to £15m. Transparency is an important principle and it should remain. A £1,000 threshold would ensure that larger donations were open without small fundraising being bureaucratic for parties.

Donation cap of £5,000

A £5,000 donation cap would ensure that people could see that influence is not being bought in a political party.

State funding, based on activity level

It is important to base state funding on the activity level of a party. We suggest a system of Tax Relief Plus that gives a supplement to the party tapered to encourage small donations more than large donations.

There should be a threshold to qualify for state funding. This would ensure that parties had a basic level of support before they could receive any state funds. It would be based on financial commitment so as not to exclude new candidates and parties. We suggest that in order to qualify for state funding the party would have to register, paying a deposit. This would be similar to the deposit for candidates at election times. Parties would have to raise £10,000 from at least 1,000 supporters.

Voluntary system of state funding

If a party does not want to receive state funding, it should not have to. The system of state funding should be voluntary for parties. If they want to receive state funding, they have to accept a cap on donations. All parties have to keep to the rules of transparency and spending limits. However, those parties that want to be funded by the state would have to give public reassurance over their source of income.

Case study 7: Small donations threshold

In Maine, the northeast state in the US, candidates are entitled to some form of state funding, in return for refusing all private contributions (including self-financing). However, in order to qualify for this support they must first raise between 50 and 2,500 \$5 contributions, depending on the contest. This must then be submitted to the fund which finances the state funding. Candidates are allowed to raise between \$1,500 and \$50,000 as 'seed funding' - as long as no donation is more than \$100 - in order to fund the qualifying process. The system receives \$2m annually in tax revenues from the state's general fund and \$250,000 from a voluntary 'check-off' programme on state tax returns. The scheme cost 69 cents per resident in 2000, or 0.03% of all state government spending.

Source: Breslow, Groat and Saba (2002)

Transitional arrangements

Parties need time to adapt to the new arrangements. The introduction of any new system overnight would mean that parties would need to undergo large structural changes. It may be that a decision to introduce state funding would lead to a rapid reduction in large donations. The Electoral Commission should monitor the gradual introduction of state funding with parties' dependency on large donations reduced over time.

The existing state aid in kind should be modernised to give parties platforms to communicate with voters.

Applying existing principles, current forms of state aid, - PPBs, freepost and other forms of free communication for parties - should be modernised and extended. There are many possibilities, including.

National call centre '0800 ELECTION'. The state would nationally publicise one freephone or local rate number. This central number would then route through to a call centre which would be staffed by the political parties.

Internet advice through portals or digital TV. Political parties are quickly developing their online capacity. However, this involves an expensive initial investment and difficult for parties to maintain. It also relies on people going directly to that party's site. In addition to these methods, the state could try to reach agreement with the main portals (AOL, Freeserve, MSN) which provide most internet access. The parties would provide information that would then be put online by the portals. An interactive element that citizens can use to engage with the party - perhaps through email - could be integrated with the national call centre to ensure that parties have the capacity to respond to inquiries.

Interactive television. By using the basis of the internet portals, parties could provide information that would then be accessible through the red button on interactive TV. A user could press their red button and then get through to a section where they are presented with - for example - 50 words written by each party about their health policy.

Billboard advertising. ippr's research highlighted the disproportionate costs of billboard advertising. Opposition parties have found it difficult to book poster sites prior to an election while others have secured highly advantageous deals with other advertisers or site providers (Linton 1994). We propose that the Central Office of Information (COI), currently the biggest purchaser of advertising in the UK, works with party officials to purchase the poster sites. Allocations would also be worked out on a coverage and frequency basis. This is an advertising technique which measures what percentage of the population see the advert and how frequently they see it. This is in line with the suggestion of the Electoral Commission for the distribution of PPBs (Electoral Commission 2002).

The Electoral Commission and COI could negotiate a menu for parties' advertising strategies to enable them to communicate more effectively with the electorate. This also had some support in our qualitative research (Edwards 2002). With the capping of donations and spending, this would establish the principle of giving parties access to the electorate in a modern way.

Parties to have a right of reply to damaging newspaper coverage

There is a long tradition of British newspapers declaring their support for one party during an election campaign. We do not wish to end this practice. The issues surrounding media regulation are complex and have received attention elsewhere (Cowling and Tambini 2002). However, readers have the right to expect that news coverage is not used to promote 'conjecture and opinion' (PCC Code of Practice). In practice, this has never been enforced.

Political parties should be allowed to reply to damaging advocacy journalism. This might help encourage fairer news coverage.

Restrictions on Third Parties to be monitored

There are already tight restrictions on Third Parties. The amount that they can spend during elections should be reduced proportionately to the reduction in parties' general election cap. However, the Electoral Commission should ensure that campaigning organisations are not unduly deterred from engaging in election campaigns. They provide useful sources of information for their supporters and members.

Enhanced role for the Electoral Commission

Advice from the Electoral Commission should have quasi-judicial status. The Commission should have greater resources to enable them to audit accounts to ensure that legislation is being observed. Members of the public should be able to take up cases of suspected abuse with the Electoral Commission.

Case study 8: Electoral Commission

The Electoral Commission in Britain could benefit from some of the powers of the Federal Elections Commission in America. The FEC has the authority to take legal cases to the Supreme Court and has an extensive division to advise. They can also give quasi-judicial advice to parties and candidates who want to check the legality of a certain action. There is an audit division which can require a party or candidate to make all of their accounts and practices available to scrutiny. Members of the public are permitted to file actions with the FEC if they think that election law has been broken.

6. Responding to the critics of fair funding

There are a series of important criticisms levelled at the idea of state funding. We believe many of these to be misplaced. The standard objections to state funding were often raised with us during the consultation period. However, the principles behind many of the objections have already been compromised in the existing regime. This chapter addresses some of the criticisms raised during the course of the research.

Q: Isn't a consensus on state funding unrealistic?

ippr set out to build a cross party consensus and we believe that we have found the points of agreement between key figures in all political parties. The Conservatives oppose 'full state funding' but many senior members have spoken out in favour of reform. However, Iain Duncan Smith has publicly advocated a system of tax relief. ippr also opposes full state funding and believes that it is for parties to decide whether they accept state funding or not. It should be noted that each major party receives a significant amount of income from the state already.

Q: Should taxpayers be forced to pay for parties they don't support?

Taxpayers already contribute towards parties they don't support. We can't choose where we spend any other taxes and then pay for policies we may oppose. There are various forms of 'tax choice giving' where taxpayers could choose to give a proportion of their tax to a party. We don't believe that this would have enough support to provide parties with the resources they need. In the US where a version of this scheme operates, it would have been bankrupted if George Bush had drawn on the fund in 2001.

Q: Parties are only failing to fund themselves because of their unpopularity. Isn't it just like nationalising a failing industry?

Disengagement in politics is partly due to lack of trust. Capping donations will provide some reassurance that politicians are trustworthy. Basing state funding on activity levels will give parties incentives to strengthen grassroots and expand contact with supporters and the general public.

Q: Aren't there more important things for the Government to fund?

Under our system the cost of state funding will be less than 0.001 per cent of government spending, or no more than £3 per taxpayer a year. State funding would be a relatively small addition to the existing costs of democracy. If we want to encourage trust in politics, it is a small price to pay. State funding will be cheaper than the running costs of parliament.

Q: Why should the public fund the BNP and other extremist parties?

Taxpayers already do through the freepost at election times and some parties' PEBs. A cost of democracy is allowing the expression of views that many people find abhorrent. Anti-discrimination legislation may be more appropriate than restricting access state funding. Our qualitative research also suggested that this issues wasn't a major objection for the public who saw it as a cost of democracy (Edwards 2002).

Q: Won't state funding just exclude nationalists, smaller parties and independents?

Although they are not the focus of this report, we see no reason why smaller parties and independents should be excluded from this system. If they meet a qualifying target and decline large donations, they could be eligible for the system of Tax Relief Plus for their income.

Q: Won't your caps be overturned in court for infringing the Human Rights Act?

We believe not. The key legal ruling lost by the British government, is known as the Bowman judgement. The Society for the Prevention of Unborn Children (SPUC) with their Executive Director, Phyllis Bowman, took the government to court for restricting their ability to campaign during election times. Under the old legislation, Third Parties could not spend more than £5. The European Court ruled in favour of SPUC because £5 was considered such a low limit that it restricted free speech.

However, when the Neill Committee recommended higher caps on the spending by Third Parties, and caps on party spending, it was confident that these would not be so low to restrict freedom of speech. Article 11 of the convention allows for any restrictions that may be necessary in a democratic society.

Q: Can't a family of four each give £5,000 each where one just gave £20,000 before?

This system, known as bundling, occurs elsewhere. However, tax rules could prevent it. A lower donation cap also makes bundling less effective.

Q: Won't all of the donations that would have gone to parties just go elsewhere?

No system of state funding can ever be water-tight just as tax systems are evaded. However, we believe that the restrictions on Third Parties will make the system harder to break.

Q: Will we see the growth of Political Action Committees like the US?

Taken together, the RPA 1983 and the PPERA make Political Action Committees illegal. The Electoral Commission may want to recommend to parliament that the drafting of these particular Acts be brought together for legal clarity.

Q: If the Liberal Democrats get by on £1.5m why can't Labour and the Conservatives?

We believe that the Liberal Democrats do not have enough resources to run an effective nationwide campaign or support a large number of MPs in Parliament. There are certain costs involved in maintaining a large organisation with some base in London. If all parties just spent less money then they would be less able to run comprehensive and professional organisations.

Q: Will state funding put the relationship between the Labour Party and trade unions at risk?

Not in itself. Removing the perception that money buys influence is important and will benefit Labour and the unions. Even with a donation cap, we believe that this historical relationship can continue.

7. Further work needed

The Electoral Commission is starting a two-year inquiry looking at funding issues in greater depth. We hope this report provides a framework for the Commission to build on and indicates some of the key issues which the Commission may wish to address. There is need for more detailed work in four policy areas in particular.

Tax Relief Plus

Tax Relief Plus needs to be worked out in detail. The amount of money that is given to each party should reflect their shortfall in funding. The taper needs to guard against abuse. The Electoral Commission could examine how a scheme could encourage small donations while not discouraging political activity by non taxpayers. It will also need to set a limit on the total cost of Tax Relief Plus, in line with the spending caps on parties.

ippr suggests that all registered political parties should benefit from this form of state funding. However, there will be important details about how organisations qualify. The deposit idea, where parties raise a large number of small donations, is one option.

Implementation

As we have seen, the PPERA has not been tested properly. Its strengths and weaknesses will only become apparent in time and after being tested in court. The Electoral Commission has the power to make legislative recommendations direct to parliament. It should seek to balance the need for new legislation for further reform of funding without compromising the basics of the PPERA. Moreover, the new measures will take time to bed down and have an affect and reformers should not expect to see all the problems solved with one piece of legislation.

We have argued for a transitional period so that parties have time to adapt to the new system. However, this would not work if parties cannot raise large donations because state funding is on the horizon. The details will be important so that they benefit parties as they are intended to. However, the principle of giving parties time to adapt to a new system is an important one.

Legal framework

The current enforcement regime for electoral law is light touch. The cases can be tried in a magistrate's court and the penalties range from a £1,000 fine to a one year prison sentence. Candidates can also be required to contest the election again. The Electoral Commission may

wish to explore a more strict enforcement regime from stricter fines to long prison sentences. If parties are going to receive larger amounts of taxpayers' money then stricter penalties may be necessary.

The issue of Third Parties need further examination. There is an important balance between encouraging activity and making sure that pressure groups do not capture the political agenda. The legal framework appears to be comprehensive but the context will change with further restrictions on spending and donations.

Other political funding

We have not examined the complex issues surrounding financial relationships between business and government. Many European systems are primarily concerned with outlawing 'kickbacks' for parties and personal benefits for politicians. This is not a major issue in British politics at present. However, if companies are restricted from giving money to parties then government departments may benefit. There are already a number of sponsorship arrangements for departmental projects.

There will also be legal complications when dealing with commercial activities of political parties. Concerns have already been raised about the way that the Electoral Commission has handled the legal issues of sponsorship and exhibitions at party conferences. Parties will still need to enter into commercial contracts for advertising, technology support and other activities. They may also continue to seek sponsorship to support their work. It will be important that the new rules allow parties to operate effectively with the private sector but within the spirit of a donation cap.

Concerns over the funding of think tanks and other political organisations have been raised during the course of this inquiry. We believe that the Electoral Commission is best placed to make any necessary observations or changes to the law.

8. Conclusion

There has never been a better time to introduce state funding for political parties. The cocktail of long term and short term problems of party finance, with a vigilant media scrutinising donations and a sceptical public, provides a good opportunity to examine options for reform.

Reform will not eradicate abuse from the system. Just as tax laws are broken, party funding laws are broken or evaded across the world. We can take some confidence from the spirit of our party culture. During the course of the research our private interviews with leading party figures highlighted that parties would rather err on the side of caution. They have not aggressively pushed the boundaries of the laws which they themselves passed.

The state funding of political parties alone will not usher in a renaissance of the mass political party and public confidence in democratic institutions. However, it can remove some sources of distrust in voters minds and encourage parties to undertake more grass-roots activity. This can only be a good thing for democracy.

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