



HANSARD
SOCIETY

PAYING FOR POLITICS

The principles of funding political parties

A Hansard Society discussion paper



PAYING FOR POLITICS

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Foreword

Writing the foreword to a Hansard Society discussion paper on party funding in 2002, I noted that the subject had become 'a matter of urgent discussion in and between the parties'. It would seem that very little has changed; except, perhaps, that the conversation has become even more vital and increasingly fraught. Recent controversy has given rise to fresh concerns about the motives of donors and highlighted the serious financial pressures that all parties are under. In response, the Government has tasked Sir Hayden Phillips with undertaking an inquiry into how political parties are funded.

To help inform the inquiry and the broader debate on this subject, the Hansard Society is pleased to present in this paper some findings from earlier work we carried out in this area, which remain relevant to the contemporary debate. In 1981, the Society published the Report of the Commission upon the Financing of Political Parties, chaired by Rt. Hon. Edmund Dell, which was co-published with the Constitutional Reform Centre. Four years later, the Society organised a further Commission on Company Donations to Political Parties (A suggested code of practice), which was chaired by Rt. Hon. Christopher Chataway.

Drawing on those reports, and the 2002 discussion paper, *Paying for Politics*, this short publication outlines six principles that we believe should be of central concern to those considering policies and proposals for a basis of future funding which meets the public interest.



Rt. Hon. The Lord Holme of Cheltenham
Chairman, Hansard Society

Introduction

Political parties play a vital role in the working of democratic government. However, the financing of political parties has yet again become an issue of major concern. Parties have themselves drawn attention to the financial difficulties they face while recent controversy about sources of income and the methods by which they raise money has produced intense public disquiet. The mere hint of corruption is enough to seriously undermine confidence in the democratic process. Recognising this, the Government has set up an inquiry under Sir Hayden Phillips, which will examine issues including the transparency of political party funding and the case for state funding; notably whether it should be enhanced in return for a cap on the size of donations.¹ The inquiry will report by the end of 2006.

Although these questions have been examined by various bodies before, the prevailing context of public disengagement from formal politics has added a new dimension to the problem, making the need for a solution more pressing. Although party membership has been in decline since the 1950s, in recent years the trend has been coupled with falling levels of grass roots activity and a stark drop in electoral turnout.

Democracy cannot function effectively unless political parties have enough money to carry out their activities and enough members willing to perform them. The principles set out below have been devised with these two core objectives in mind.

¹ <http://www.partyfundingreview.gov.uk/>

The principles of party funding

- 1. The importance of transparency in the sources for and spending of party funds;**
- 2. Setting low ceilings on general election expenditure by political parties;**
- 3. Ensuring that donations by companies and trade unions have explicit consent of shareholders or members;**
- 4. Working for the broadest possible base of small donations in preference to relatively few large donations;**
- 5. Encouraging the widest possible participation in the political process;**
- 6. Setting strict conditions for any provision of public funds to political parties.**

1. Maintaining transparency in the sources and uses of party funds

Political finance should be direct and completely open. Secrecy in the donation of funds or in their receipt is inappropriate in a truly democratic society and raises suspicions about the motives of donor and recipient. Transparency in the system of political donations can only be healthy in its effects and was advocated by the Neill Committee report on the state funding of political parties.

... the advantages that can be claimed for transparency include the following:

- (1) the public and the media know who is financing each political party;*
- (2) rumour and suspicion wither;*
- (3) the possibility of secret influence over Ministers or policy is greatly diminished;*
- (4) public confidence in the probity of the political process is raised.²*

Under the *Political Parties, Elections and Referendums Act 2000* (PPERA), registered political parties are required to submit an annual statement of accounts to the Electoral Commission. Parties are obliged to disclose donations of more than £5,000 at national level and £1,000 at local level. Foreign donations are banned. Currently, parties fighting in all constituencies are bound to spend no more than £19.38 million on General Election campaigning. Under present rules, loans at commercial rates of interest do not have to be declared by political parties. The Government plans to amend the *Electoral Administration Bill*, currently going through Parliament, to ensure that all future loans have to be declared. Those who make donations openly should not be penalised for doing so, although the public will make their own judgements as to the motives and appropriateness of the donors.

Party accounts should be full and explicit, showing not only the sources of their funding but the uses to which the funds have been put. Anyone who scrutinises them, particularly members of the public, must have an accurate picture of the party's activities and how they are financed. Parties that do not adhere to the spirit of such conventions erode faith in the organisations themselves and serve to undermine public confidence in the democratic system.

2. Setting low ceilings on general election expenditure by political parties

Political parties should not be starved of funds that enable them to prepare for the responsibilities of government or in the task of holding the executive to account. However, there are areas where political expenditure is running at an unnecessarily high level and can be cut back. The most obvious example of this is General Election spending. Each party feels bound to respond to competitive pressures to conduct voter research and conduct an expensive campaign on the road, on billboards and increasingly online. Presently, and in our view correctly, the expenses of individual party candidates in constituencies are tightly controlled, precisely to prevent the abuse of high spending in the electoral process, although

² Committee on Standards in Public Life, Fifth Report, *The Funding of Political Parties in the United Kingdom* Cm. 4057, October 1998. Para. 4.15.

we are concerned with the sense of the permanent campaign, which now seems to have permeated throughout British politics. Low ceilings on election expenditure may help ensure that money cannot buy power.

It is now acknowledged that General Elections are fought as much, if not more, at the national level than the constituency level.

It is evident that political parties, hard pressed to meet the mounting costs of election campaigns and also the mounting costs of their day-to-day activities, are driven to concentrate their resources on campaigning and routine administration at the expense of long-term policy development.³

Currently, national election spending is capped at £19.38 million per party. The Electoral Commission recommends a reduction of this amount to £15 million per party and further proposed individual candidates' expenditure should be doubled, allowing more effort and expense to be used for constituency based campaigning.⁴ The hope is that this will increase the opportunity for candidates to engage with their own constituents and will combat recent claims of extravagance leveled against national campaigns.

Political parties also currently benefit from 'in kind' state funding in the form of free mail shots to households and free airtime for party political broadcasts and this should not be disregarded when considering the appropriate limits on election expenditure.

3. Ensuring that donations by companies and trade unions have explicit consent of shareholders or members

At present political parties are too dependent upon a small number of very large donations. The Electoral Commission has undertaken a capping analysis and found that if in 2002-03 donations were capped at £5,000, £10,000 and £50,000, income would decline from just over £65m to £8m, £12m and £22m, respectively.⁵ It is an important principle of democratic government that no particular sectional interest should receive favourable treatment or enjoy excessive influence because of a financial contribution to a political party. Donations made by corporate bodies – whether public companies, trade unions, or other membership bodies – should proceed from a clear definition of the interests of the organisation. Members and/or shareholders should be given the opportunity to explicitly agree or disagree to political donations or loans. These principles were recommended by the Neill Committee and have been embodied in statutory provisions that require directors of a company or trade union officials to seek approval of donations or expenses incurred for political purposes. It is desirable that parties should not be over-dependent on large collective donations of this sort which ultimately represent special, albeit substantial, interests. Nor should parties be over-reliant on individual donations or loans as this creates long-term financial planning problems for parties, as well as concerns about the power of a small number of wealthy individuals.

³ Committee on Standards in Public Life, Fifth Report, The Funding of Political Parties in the United Kingdom Cm. 4057, October 1998. Para. 7.25.

⁴ Electoral Commission, 'The Funding of Political Parties: Report and Recommendations, December 2004. Para 7.6 & 7.7.

⁵ Electoral Commission, 'The Funding of Political Parties: Report and Recommendations, December 2004. Paras 5.49-5.53.

4. Working for the broadest possible base of small donations in preference to relatively few large donations

However parties are funded, the public interest suggests that many small donations, given from personal commitment, are preferable to a few very large ones given in the possible hope of special personal or corporate advantage. Political parties seek to offer a basis for electoral choice, by putting what they consider to be the central political issues before the voting public. This function is vital to modern democracy, since the only way in which the electorate can choose between different policies is to have them structured by political parties presenting alternative programmes for their approval. We would encourage any review of party funding to consider ways in which increasing the number of small donations might be encouraged.

Between them political parties should give voice to the main segments of opinion and the main interests in the country. It is an important democratic principle that no particular opinion or interest should receive favourable treatment nor enjoy excessive influence because of its financial contribution. Conversely, no substantial segment of opinion or interest should be denied effective representation because of lack of finance.

5. Encouraging the widest possible participation in the political process and encouraging parties themselves to work to enhance democracy

Political parties are channels for popular participation in politics. They enable members of the public to play some part in discussing political issues and to become involved in political decision-making.

The parties ... offer voters alternative policies and candidates from which to choose at elections. They make possible the conduct of effective parliamentary government. Not least, political parties are the principal means through which ordinary citizens can, and do, become involved in the democratic process.⁶

But can parties fulfil this function successfully without attracting a much wider membership to their ranks? At present, their membership is so low that in many constituencies only a small number of activists are genuinely involved in popular political activity. A recent Joseph Rowntree study of political activity in two northern towns, Burnley and Harrogate, found that the local party system was kept alive by just 100 people. If such a trend continues, the report concluded, 'local electoral democracy may cease to be viable'.

One consequence of declining membership has been to force parties to become increasingly reliant on large donations from wealthy individuals or organised interests. But the public interest suggests that many small donations, given from personal commitment, are preferable to a few very large ones given in the possible hope of special personal or corporate advantage. Could methods of financing the parties be found which would offer

⁶ Committee on Standards in Public Life, Fifth Report, The Funding of Political Parties in the United Kingdom Cm. 4057, October 1998. Para 2.2.

them an incentive to increase their membership and thereby broaden their base of support and representation?

Funding arrangements such as match funding or tax relief would reward parties potentially engendering wider support bases and membership lists.⁷ The Labour Party consultation document in response to Sir Hayden Phillips' inquiry asks whether a 'Foundation for Democracy' should be established for the UK. It notes that the Labour Party supports political parties in the developing world (via the Westminster Foundation for Democracy) and "...yet we do not offer such support to the democratic institutions at home".⁸ The idea of an independent foundation to administer funds for research and development for the political parties is an attractive one and could be enhanced to ensure that parties are more responsive to the public interest.

6. Setting strict conditions for the use of public funds

State funding is not a new principle, being recommended by a majority in the Houghton Committee Report⁹, yet it remains controversial. As Ewing and Issacharoff note:

*Is the State being asked to provide life support for organisations in terminal decline? Are tax payers being conscripted to fund organisations which electors have chosen to desert? It is nevertheless an inescapable fact that in many countries the State is being asked to provide more and more of the resources of the candidates and the parties, whether directly in the form of cash grants or indirectly in the form of aid in kind.*¹⁰

Of course, substantial public funding of political parties already occurs for specific purposes, for example through provision of Short Money or Cranborne Money to opposition parties in Parliament, free broadcasting and postal delivery during elections, funding for special advisers and the new policy development grants. This will and should continue. Any extension of public funding of political parties should not be unconditional. For instance, the state should not have to protect the parties from the financial consequences of falling membership, or from an inability to attract support. As a general subsidy to political parties, unconditional state aid would not only fail to encourage public participation in politics, but might actually discourage it. The individual member, and their subscription, would become less important to the parties to the extent that they became reliant upon the state for aid. There is a further fear that funding from the state will attract unwelcome regulation which may stifle the activities of political parties, and may limit the opportunity for new parties to form and become an electoral force.

⁷ Electoral Commission, *The funding of political parties*, December 2004, Para 5.36. ⁸

⁸ *The Future of Party Funding* Labour Party NEC Consultation, London, June 2006.

⁹ *Report of the Committee on Financial Aid to Political Parties*, 1976.

¹⁰ Ewing, E. and Issacharoff, S. 'Introduction'. In *Party funding and campaign financing in international perspective*. Edited by KD Ewing and Samuel Issacharoff. 330p. Columbia-London law series. Hart Publishing, 2006 (pp 1-10)

Paying for Politics

The application of the principles that we have outlined - transparency; a low ceiling on general election expenditure; consent of shareholders or members to donations; working for the broadest base of donations; encouraging participation and setting strict conditions for any use of public funds – should provide the basis to any discussion of the ways in which politics is funded. These discussions must always start on the basis that any changes should improve the working of our democratic institutions, which in turn would result in a considerable strengthening of our parliamentary democracy. There is a diverse range of solutions to the problems of funding political parties and indeed, we have crossed the barriers of public funds being involved in financing and the state regulating parties. The question is on what grounds any development should take place. The principles outlined above are intended to provide material for the current inquiry and any future discussions on the system of funding of political parties that may be proposed in the future.

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The Hansard Society has drawn the principles set out in this short discussion paper from reports which it has previously published, on which the Society did not express a view for or against. However, the Society believes this paper is a useful contribution to the debate and invites analysis and discussion of it.

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