

Next Step: State Funding?

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The *Political Parties, Elections and Referendums Act* 2000 marked the most comprehensive and radical overhaul of British party finance for over 100 years. It instituted reforms in many areas with the notable exception of the comprehensive extension of state funding for political parties. However, despite the radicalism of the Act, questions have already arisen as to whether the further state funding should occur. This article argues that in order to examine the case for more comprehensive state funding, policy makers need to look beyond the current calls and make a decision by evaluating several criteria on an empirical, rather than an assumed basis. First, however, it is worth outlining the stage we are at presently by summarising the new Act, looking at its impact to date and examining the claims made in recent episodes which have led to calls for more comprehensive state funding of political parties.

The Political Parties, Elections and Referendums Act

The provisions in the *Political Parties, Elections and Referendums Act* were based almost entirely upon the recommendations of the Fifth Report of the Committee on Standards in Public Life (the Neill Committee) published in 1998. Given the abject failure of previous attempts to reform party finance during the last twenty-five years, the radicalism and comprehensiveness of the Report was a genuine surprise. Not only did the Committee engage in a very thorough examination, it also produced its report

very quickly. Yet perhaps even more surprisingly, the recommendations received all party support, a factor which contributed to the proposals becoming law.

Given that British party finance was virtually unregulated beforehand, it is worth outlining the extent of the reforms.¹ First, an Electoral Commission was established to oversee the implementation of the law relevant to party finance, as well as for other electoral matters including overseeing electoral boundaries, the registration of parties and designated organisations, the regulations pertaining to elections, and the use of advertising in elections. Major parties will now be required to submit audited accounts to the Commission based upon identical time periods in a standard format. These will subsequently be made available for public inspection. In addition, parties must make regular declarations regarding election expenditure and donations.

Secondly, the Act regulates political donations. It specifies that gifts to parties in excess of £5,000 nationally and £1,000 locally are now publicly declared. Importantly, this includes ‘in kind’ payments. Declaration is quarterly during non-election periods and weekly during general elections. Anonymous donations to parties in excess of £200 are now prohibited, as are ‘blind trusts’ and foreign donations. Contributions are only permitted from permissible sources².

Thirdly, one of Act’s most radical clauses was to limit campaign spending at national level in general elections. Hitherto, only constituency campaign expenditure had been regulated. One problem with a national limit is the definition of when a campaign begins. For the purposes of the Act, the campaign was defined officially as the 365 days preceding polling day in a general election, with the spending ceiling initially set at £30,000 per contested constituency. Thus, if a party contested all 641 seats in Britain, the ceiling would be £19,230,000. The spending cap was a surprise move, given that of all the regulations this was most likely to attract attempts to find

loopholes, but the Neill Committee's justification was one similar to that imposed at constituency level. The analogy was with speed limits. A 30mph speed limit will not prevent drivers travelling at 35mph, but it is likely to prevent speeds of 50mph. Spending limits will also apply to non-Westminster elections, though the definition of campaign periods differs. In European elections, this will be £45,000 per MEP in a region; in Scotland, £12,000 per constituency contested plus £80,000 per contested region; in Wales, £10,000 per contested constituency plus £40,000 per contested region; and in Northern Ireland, £17,000 per contested constituency.

State Funding

Despite the radicalism of these provisions, the Neill Committee rejected comprehensive state funding on the grounds that the case was not sufficiently compelling. Instead, the spending caps were designed to reduce the need for income. That said, state assistance was, at least, extended. Firstly, following the recommendations of Neill, 'Short' money was increased by a factor of 2.7 in 1999. Secondly, within the Act, a Policy Development Fund was established, initially cash limited to £2 million per annum, to assist parties to engage more fully on policy development.

In addition, of course, parties have enjoyed limited state support for many years. Such subsidies include free election mailings, free use of public halls, state security at party conferences and the larger parties, free broadcasting airtime for a controlled number of party broadcasts.³ Yet though improved in recent years, these subsidies are still modest compared with many other Western countries, (Nassmacher, 1993). More importantly, with the exception of new Policy Development Fund, almost all operate only at the time of elections. The problem for parties is that their

financial needs are constant, and therefore such subsidies are of only modest financial benefit.

What has been the impact of the new legislation?

At the most basic level, the new Act has introduced a degree of transparency into party donations that did not previously exist. For the student of party finance this has been nothing short of a godsend, given the paucity of data previously available. At a more advanced level however, we can evaluate the impact of the new legislation on one general election (2001). Obviously, this cannot provide the basis of a truly comprehensive evaluation, but nevertheless some useful observations can be made.⁴

First, it is doubtful that the new spending caps made any decisive difference to party fortunes, especially as the spending gap between the main parties and the Liberal Democrats remained very wide. Instead, the principal impact is likely to have been one of changing the proportions spent on campaign items, rather than levelling the electoral playing field. The new limit imposed opportunity costs. If one million was spent on A, then that was one million that could not be spent on B or C. Thus, parties had to review their spending in order that it should be most effective. Interestingly, the two main parties did not concur on which campaign techniques were regarded as being most likely to accomplish their aims.

Yet, it is also clear that campaigning is not just a function of what parties do themselves. Both Labour and the Conservatives received significant news coverage for campaign techniques in which they invested relatively little. Labour did not spend a great deal on electronic campaigning (like text messages to mobile phones), but gained a great deal of coverage from it. The Conservatives erected their final campaign poster (urging voters to prevent a second Labour landslide) on only twenty sites, but its

contents shaped the final week of the campaign. As a consequence, it may be argued that the continued regulation of campaign broadcasting to ensure broad equity is essential if the new regulations are to have any success in evening out any impact of electoral spending.

Secondly, compliance with the new legislation inevitably caused a few problems given the extent of the new regulations. To some extent these difficulties were anticipated by the Act. One-off start-up grants were made available to assist parties in meeting the costs of compliance.⁵ Nevertheless, local parties did face a few problems – particularly with the heavier workload, which accompanied the changes to postal voting, and rolling registration. Despite these difficulties, parties adapted well to the new regulations, overall. There were some uncertainties, notably the status of some forms of donations ‘in kind’. Nevertheless, the indications are that the regulations, both in spirit and actuality, were observed and of course, it should be easier for parties to comprehend the legislation in future elections.

The continuation of party finance ‘episodes’

Despite the new legislation, there continue to be concerns about the probity of party finance. Indeed, the regular appearance of these has prompted some to call for further state funding. Yet before we evaluate such a call, it is worth first outlining some of the main episodes since the Act was passed.

‘Large’ Donations

First, prior to the act coming into force, both main parties revealed that they had received substantial donations – Labour had received three totalling £6 million, the Conservatives one of £5 million. A further donation of £5 million was made to the

latter just days before the 2001 general election. There followed some disquiet at the size of these donations, even prompting the chair of the Electoral Commission to suggest that the question of donation caps might be re-examined in future.

Large donations can be problematic. There may be democratic concerns where a party receives a considerable proportion of its income from one or few sources and public confidence may not be reassured by the fact that these sources may provide such a significant proportion of the party's income. Yet arguably, the problem of 'big' donations may be overstated. Large donations tend to generate the most publicity, but can distort the broader picture. For example, using the Electoral Commission's data for donations during the whole of 2001 (or at least from February, when the new Act came into force), we do indeed find that some large donations were made. The Conservatives received the largest – there were three donations in excess of £1 million and a further five of over £100,000. For Labour, there were no donations from companies or individuals in excess of £200,000, though five trade unions contributed over £6.4 million centrally over the course of the year. The Liberal Democrats received only one donation in excess of £100,000. Most donations for all parties were, however, far smaller. That said, for the Conservatives in particular, there is clearly the concern that a significant proportion of their donated income came from very few sources, the top three alone accounting for £8.5 million.

'Cash for Favours'

A second concern is where there have been donations where suggestions have been made that preferential treatment has been given to donors. Four such episodes have occurred in recent months. First, it emerged that the collapsed energy company Enron had sponsored Labour Party events since 1997 to the sum of around £36,000.

The company had acquired Wessex Water without a regulatory review and had had a number of meetings with senior officials over British energy policy. Secondly in 2001, the Prime Minister wrote a letter in support of LNM Holdings, in their efforts to acquire a Romanian steel company. The owner of the company, Lakshmi Mittal had previously made a donation to the Labour Party of £125,000. Thirdly, after the award of a £32 million government contract for a smallpox vaccine was awarded to Powderject, it emerged that the Chairman and Chief Executive, Paul Drayson had made two separate donations to Labour of £50,000. Finally, following the successful take-over of Express Group newspapers by the Northern and Shell group (which was not contested by the Department of Trade and Industry) the owner, Richard Desmond made a donation to Labour of £100,000. Further embarrassment was caused by the fact that Mr. Desmond's group also publishes pornographic material. In response to these episodes (particularly the latter), Labour set up an ethics committee to vet all large donations and stipulate that all donors agree that their donations is not intended to delivery commercial advantage.

For all that, however, it is worth noting three points. First, in all cases, the preferential treatment was assumed rather than demonstrated. For example, Paul Drayson was an existing Labour supporter and had made previous donations, whilst in the case of Richard Desmond, the donation was made *after* the favour was supposed to have been done. Whilst one cannot wholly rule out wrongdoing, it is typical of many investigations into party finance that coincidence is regarded as adequate causal evidence (this lapse was also true of many accusations about Conservative finances in the 1980s and 1990s)⁶. Secondly, in all cases bar the first (Enron), the donation was made by an individual, rather than the company which benefited. To be sure, those individuals would also benefit if their companies were successful, but again the link

between donation and favour (if it exists at all) becomes less direct than accusers claim.

Finally, the size of some of these donations was relatively modest. Of course, all donations are welcome, but it does, for example, stretch credibility to suggest that British energy policy might be changed in return for sponsorship to the tune of £36,000 over a period of years. Yet, for all that, while these episodes do not necessarily suggest that impropriety has taken place, they all have the potential to damage public confidence – especially when as here, they appear in close succession and thereby create a cumulative effect. As a result, calls have come for the introduction of state funding of parties – the expectation being that this would prevent such episodes. In order to assess the case for state funding, however, we need to consider more than just these episodes. Essentially, there are at least three questions which we should consider: Would state funding provide a solution to public disquiet? Does the voluntary system of funding parties provide adequate income? and Does greater party spending lead to electoral payoffs?

Should State Funding be Extended?

Would state funding provide a ‘cure’ for the recent episodes?

In short, it is unlikely that state funding would have prevented such episodes (scandals is too strong a word). Repeated comparative evidence points to continued problems of this kind despite the existence of comprehensive state funding. That said, there may be a case for arguing that the British experience would be more positive. Despite the comparative lack of regulation in the past, Britain has been notably free of party finance scandals. Of course, some might argue that the lack of regulation has meant that little information about donations has been available and thus ‘wrongdoing’ may

well have occurred without our knowledge. Certainly, the newly available data means that new episodes may come to light as in the case of Paul Drayson. So in a sense, the new regulations may actually contribute to public disquiet. On the other hand, given that data about donors are now freely available, one wonders whether any donor intent on seeking benefits, or indeed any party willing to grant them, would risk such a move given the likely unwelcome glare of publicity.

However, what comprehensive state funding would do is relieve parties to an extent from the need to seek funds from anyone and everyone and would allow legislation to limit the size of donations without crippling the parties financially. As things stand, parties' need for income means that are less likely to be selective about from whom they receive donations. Limiting the size of donations without providing an alternative form of income, however, would be likely to result in parties going bankrupt.

Is Voluntary Income sufficient?

The absence of comprehensive state funding means that the bulk of party finances are based upon voluntary income. This creates certain problems, however. First, most expenditure for British political parties is routine, generally constituting around 80 per cent of both Conservative and Labour central expenditure. Thus, in order simply to maintain themselves as viable organisations, parties require some consistent financial input. Secondly, the notion of an electoral cycle every four to five years in British politics is something of a misnomer, at least as far as parties are concerned. Whilst parties do concentrate most resources and interest upon general elections, they also campaign on a national basis in European elections and across large proportions of the country in the various staggered local elections as well as in the new devolved

institutions. All in all, party expenditure, whilst peaking at the times of general elections, is nevertheless something of a constant.

Party income, on the other hand, follows the general election cycle, leading to parties struggling to fulfil their financial obligations and routinely finding themselves in deficit. Worse, parties cannot enhance their income via good performance. No matter how well or badly parties perform, their finances are unaffected and therefore any assumption that parties may have control over their income by virtue of their performance is undermined. As a result, the basis of voluntary income as an effective means of distributing funds to competing parties is open to serious question.⁷ Overall then, the problem for parties is not that they have too much money, it is that they have too little. Voluntary funding simply does not generate sufficient income for modern political parties. As such, if we accept the case that healthy parties are an important aspect of democratic life, then the case for providing more comprehensive public assistance becomes stronger.

Does additional spending lead to electoral payoffs (and is capping a good idea)?

The Neill Committee proposed the capping of national expenditure limits at general elections. The likely outcome was predicted to make the electoral playing field at least a little more even – especially with the retention of the ban on advertising on broadcast media and the continuation of party election broadcasts. However, there is reason to argue that the assumption that increased spending will result in greater electoral payoffs is flawed.

Although a link between spending at constituency level on electoral success has been repeatedly demonstrated, at national level the link between spending and electoral payoffs is not conclusive. The only circumstances where there is a link is in the case of

Conservative incumbents, where an annual increase of £1,000 expenditure at 1963 prices, produces a 0.004 per cent increase in Conservative poll ratings – a minute amount.⁸ On the face of it then, the case for introducing state funding to make the electoral playing field more even would not seem to be based on empirical investigation.

One might also ask whether it is desirable to limit campaign spending anyway. Campaigning raises public awareness of politics. It is also a form of political education. Since studies of constituency campaigning demonstrate that more intense campaigning boosts turnout, it is arguable that campaigning should not be discouraged by capping it. Spending caps may also provide a disincentive to donate. If income is largely driven by the electoral cycle, it is unlikely that parties will be able to stockpile resources for non-election years, since that would entail donors contributing in the knowledge that election expenditure (which has stimulated contributions) is to be limited. Such limitations would logically be a disincentive to make a contribution.

Finally, capping party spending can diminish the parties' ability to respond to campaigns by 'third parties'. Whilst 'third party' election spending is restricted by the new legislation, the limits only apply to individual groups. If say, a series of interest groups were to campaign strongly against a party – say on fox-hunting, the age of consent and so on, a party would find itself having to fight several battles, but would still have its spending capped. As a consequence, one could argue that spending caps for parties are legitimate so long as there is only inter-party competition, but that parties are less able to cope with campaigns outside the conventional electoral process. This becomes especially apparent if we include the mass media as a 'third party'. Of course, the mass media are not running campaigns as such, but by limiting the amount that

parties can spend at elections, we limit their ability to respond to campaigns, official or otherwise, by interest groups and the media.

Is there a case for more comprehensive state funding?

By analysing these three broad questions, the answer is mixed. It is difficult to support state funding on the grounds of more even electoral playing fields since there is little empirical support for the case that increased party spending enhances electoral payoffs at national level. Moreover, the evidence of capping national spending suggests that it had little impact in terms of evening out the contest and more on generating opportunity costs for parties.

Neither would comprehensive state funding necessarily provide a 'cure' for the recent episodes, which have prompted these discussions. Much of the comparative evidence suggests that party finance scandals continue to occur, despite the provision of extensive state assistance to parties. However, what the introduction of state funding would allow would be the capping of donations, which might at least alleviate some concerns. Certainly, such a move would be impractical without further state support. That said, it is worth emphasising that the Enron donation to Labour was itself relatively small, yet this did not prevent concerns arising.

Finally, however and perhaps most tellingly, we can see that the current means by which parties are funded does not cover the parties needs adequately. It provides adequate funding only at general elections and leads to parties routinely being in deficit. Worse still, it is not responsive to party performance. This leads to parties being poorly funded and having little prospect of having any impact on improving their plight. For this reason, there is a strong case for the introduction of more

comprehensive state funding if we consider parties to play an essential role in our democratic institutions.

All of which begs the questions of whether the new regulations should have included more comprehensive state funding in the first place. In truth, it is too early to say – the Act has only been in place for a year and a half and the measure which Neill envisaged to negate the need for state funding may well yet bear fruit. It is also worth stressing the radicalism of the new Act. It established for the first time an electoral commission, regulation of donations, limited election spending, a moderate increase in state support and clarified the position of ‘third’ parties. More importantly, Neill’s proposals received all-party backing – a factor which contributed to proposals being accepted almost in their entirety. More extensive proposals, such as more comprehensive state funding would have been less likely at that time to receive such support. The result is that these radical proposals have become law with the possibility of further measures. Contrast this with proposals from the Houghton and Jenkins committees, which were shelved through a lack of political will.

Conclusions: Next Step – State Funding?

In spite of radical legislation, which has transformed British party finance, disquiet has not disappeared and calls for comprehensive state funding have increased. In a way, this is somewhat ironic. A traditional rebuff to those who called for state funding was that public opinion would oppose it for all manner of reasons, not least that tax payers would resent contributing to parties which they did not support. The irony is that at a time when parties are supposed to be unpopular (measured all too narrowly and misleadingly by focussing on electoral turnout), the calls for state funding are at their loudest.

Yet the reasons for these louder calls are in many cases not based upon empirical investigation. To be blunt, the idea that state funding will automatically eliminate public disquiet is fanciful. That does not however mean that the extension of state funding is a bad idea - rather that any decision should be based on evaluating various criteria by empirical investigation. On this basis, a case can be made that state funding would neither guarantee a cure for public disquiet, nor would it make election contests more even. Despite common belief, it is very difficult to demonstrate that national party spending enhances electoral payoffs at anything but the most superficial level.

However, empirical investigation does show that voluntary income is an ineffective and unresponsive way of funding parties. The general election cycle drives income and is not responsive to parties' performances. Worse still, the financial needs of parties are constant, at both organisational and campaigning levels. The result is that at present, all parties face severe financial problems. And since they are fundamental to parliamentary democracy, it is not just the parties themselves who suffer. Thus there is a strong case to be made that more comprehensive state funding should be introduced to ensure that parliamentary democracy is properly funded. In short, do we want democracy 'on the cheap?'

For all that, of course, there is no guarantee that the Government will introduce state funding. The problems are not new and of course at the time of Neill, the Government (officially at least) shared the opposition towards this solution. But things have changed a little since then. Senior Labour figures are now indicating their support for the idea and there is consensus between all three main parties on at least a small extension of state funding to cover such things as the costs of e-democracy and the training of councillors. Moreover, if other trade unions follow the lead of the RMT

and cut their affiliation to the Labour Party, a philosophical conversion may become bolstered by practical concerns.

Selling the policy as a ‘cure for scandals’ may nevertheless be politically expedient, since despite the evidence, it will be difficult to convince the public that the parties are ‘hard-up’. Moreover, such a move might well be attractive to Labour figures who wish to distance the party from the trade unions. State funding would be likely to accompany a cap on donations. If this cap were to include affiliations, then the role of the trade unions in Labour party politics could be significantly diminished.

For all these reasons, it seems likely that state funding will be extended, though by how much, it is difficult to say at this stage. All of which leads to a further question – if more state funding is to be introduced, what should be the basis for the allocation of funds. Currently, past electoral support provides the basis for the distribution of state support. This is sensible on the basis of current levels of subsidy. However, should further monies be available, allocating these on the basis of votes obtained might well be seen to further enhance the distorting effect of the electoral system. If the case is made that the Liberal Democrats lose votes because of the mechanics of first-past-the post (on account of the ‘wasted vote’ thesis), then they will suffer twice when state finance is distributed. As a result, it may be preferable to allocate state subsidies on the basis of party membership. This would not be subject to the distorting effect of the electoral system to the same extent and would alleviate any threat of parties abandoning grass-roots participation on account of receiving more state money, since parties would have an incentive to recruit and retain members. In short, state funding based upon membership would have the potential to enhance political participation rather than just reflect past behaviour. For those reasons, such a formula is surely preferable.

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- ¹ A more detailed discussion of the contents of the Act can be found in J. Fisher, 'The Political Parties, Elections and Referendums Act', *Representation*, 38, 2001, pp. 11-19.
- ² Donations are only allowed from individuals entitled to be registered as UK voters; companies incorporated in the United Kingdom; partnerships based in the United Kingdom or who operate principally in the United Kingdom; registered trade unions and other organisations based in the United Kingdom or those parts of organisations whose principal spheres of operation are based in the United Kingdom.
- ³ There is also a case for also including the payment of MPs into the list of state support for parties since this was only introduced in 1911, though since MPs work in the service of their constituency rather than their party, this could be considered to be misleading.
- ⁴ A more detailed discussion can be found in J. Fisher, 'Campaign Finance: Elections Under New Rules' in *Britain Votes 2001*, ed. P. Norris, Oxford, Oxford University Press, 2001, pp. 125-36.
- ⁵ The Labour and Conservative parties were allocated £183,052 each and the Liberal Democrats £136,840. Funds were also allocated to virtually all other registered parties. For further details, see the *Electoral Commission Annual Report 2000/1*, London, Electoral Commission, 2002, p.10.
- ⁶ See J. Fisher, 'Donations to the Conservative Party,' *Parliamentary Affairs*, 1994, pp. 61-72.
- ⁷ See J. Fisher, 'Economic Performance or Electoral Necessity: Evaluating the System of Voluntary Income to Political Parties,' *British Journal of Politics and International Relations*, 1999, pp. 179-204.
- ⁸ See J. Fisher 'Party Expenditure and Electoral Prospects: A National Level Analysis of Britain,' *Electoral Studies*, 1999, pp. 519-32.