Introduction

In one sense, it is odd to be discussing this question only a year after Political Parties, Elections & Referendums Act (PPERA) came into force. In truth, it is too early to say – the act has only been in place for just over a year and we only have the experience of its implementation at one General Election. It might also be seen as being odd given the radicalism of the Act. It represented the most dramatic overhaul of party finance since 1883. All attempts at reform since then have failed. Houghton failed because of a lack of political will to implement it before a change of government. The reforms proposed in various Hansard reports were ignored much as the support for the status quo in the 1994 Home Affairs Committee Report was noted - both suited the interests and ideology of that government.

The PPERA, however 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. Significantly, the Neill Committee’s proposals, upon which PPERA was based, received all-party support – a factor which contributed to proposals being accepted almost in their entirety. The result is that these radical proposals have become law with the possibility of further measures. More extensive proposals, such as comprehensive state funding would have been less likely to receive such support at that that time, and one should contrast the success of the Neill proposals in reaching the a statute book with proposals like Houghton and Jenkins.

For all that, however, the operation of the act so far has led to a number of questions being raised about whether further reform, building on PPERA is required. In order to assess this, it is worthwhile asking the following broad questions:

- Does greater transparency alleviate public concerns regarding party finance?
- Should donations be capped?
- Are spending caps a good idea?
- Is the mainly voluntary system of party finance effective?
Does greater transparency alleviate public concerns regarding party finance?

Questions to consider:

- Is transparency a good idea?
- At what level should donations be declared?
- What motivates donors?

Is transparency a good idea?
The reasons advanced for the declaration the identity of contributors are threefold. First, transparency in political conduct is useful in the fight against corruption. Secondly, disclosure can help maintain public confidence in the democratic political process: secrecy can breed suspicion and confidence is more likely if unnecessary secrecy is removed. Thirdly, since parties are competing for the highest office in democratic government, the public simply has a ‘right to know’ how they are financed.

The counter-arguments are firstly that donations are a private matter and that the interest of ‘inquisitive journalists, political opponents or even the state’ is not legitimate. Secondly, the declaration of donations (including in-kind payments) represents a significant and unjustified administrative burden for parties. Despite these arguments, of which the latter is perhaps the most significant, the case for transparency has been broadly accepted.

At what level should donations be declared?
A particular problem with declaration levels is that any threshold that is set will have a varying impact depending upon the size of the party concerned. A threshold of £1,000 might identify donors that are critical to a small party's finances and thus potentially capable of some leverage: identification would arguably then be in the interests of transparency and public confidence. On the other hand, the same threshold for a larger party would entail identification of donors not having a substantial financial impact upon the party (however helpful their contribution). From this point of view the privacy of the small donor to a large party would be contravened. Of course, one might take the view that any contribution, however small ought to be declared, but at a practical level there are administrative considerations for larger parties in attempting to identify large numbers of smaller donations. At present, the levels to trigger declaration appear to be working well at national level. However, at local level, there are some difficulties given the varying degree of sophistication in local party accounting (Fisher, 2000b).

What motivates donors?
Throughout many debates and indeed the academic literature on the subject of political finance, there is a widespread assumption that donors who contribute to political parties do so in the expectation that their payment may yield some form of return. However,
research has shown that those assumptions are somewhat simplistic. In fact, the motivations for making donations are rather more complex (Fisher, 1995).

**Positive Reasons**

- Donations may occur first because of an ideological commitment. It is perfectly consistent with ideological belief that some donors wish to express their commitment by making a donation.
- Secondly an individual or an institution may conceive that a particular party is likely to create a political or economic environment in which they or their institution are more likely to flourish.
- Thirdly, and in keeping with general assumptions about donations, donors may seek selective benefits. These are most likely to take their form in access to senior politicians. On the one hand, this idea corresponds with the popular view of why donations are made. However, it does follow that this resource is a constant sum. Donors may possess the resource, but may not all use it in the same way or with similar degrees of skill. Moreover, there is no reason to suggest that access can actually achieve anything since those who are being accessed may not actually act, or want to act upon any requests that are made. There are after all, countless examples of pressure groups who gain access by virtue of their policy interests, but who make no gains in spite of their contacts with relevant decision-makers. In addition, there are donors who make donations who have access anyway, either because of their size or their structural position in the economy, thus a political donation in this sense does not enhance their position. On the other hand of course, donors who do gain access by virtue of their donations do at least have an opportunity to attempt to influence decision-makers, which is denied to those who do not possess this resource.
- Finally, of course, donors may actually seek some selective benefit such as contracts or exemptions from legislation. However, given that donations are now public knowledge and the likelihood is that links will be suggested concerning donations and outcomes, it begs the question of whether such an attempt would be worthwhile. Certainly, given the small size of most donations, it does seem unlikely that parties would succumb to pressure as easily as is commonly suggested.

**Negative Reasons**

Donations may also be made for negative reasons – a desire to help keep perceived political opponents out of office. For example, some trade unions have justified payments to Labour on account of historic clashes with Conservative administrations, as well as a general opposition to the prospects of Conservative governments, which are viewed as being hostile to the trade union movement. Others may be suspicious or hostile to Labour’s fiscal, regulatory and European policies. Certainly, prior to 1997 many companies expressed doubts about Labour’s ability to manage the economy and their concerns about policies such as the minimum wage.

**Personalities**

The personality of key figures as figureheads of institutional donors is of importance. Research into corporate donations has shown, for example, that many chairmen of companies contributing to the Conservatives tended themselves to be politically active.
and support the Conservative Party. The manifestation of this political support was frequently through their companies (Fisher, 1994). The same may now be true of some corporate donations to Labour.

**Conclusions**

Transparency alone does not alleviate public concerns. Despite the new Act, there have still been controversies over party finance concerning both the size of donations and the perceived links between donations and political decisions. The former has prompted the chair of the Electoral Commission, Sam Younger, to suggest that the question of donation caps might be re-examined in future. Thus transparency has failed to curb unease. Ironically, there is now more information than was available before, so more questions are bound to be asked. However, what is also noticeable is that some episodes (scandals is perhaps too strong a word) have been linked to what are very modest donations, which suggests that the relatively low level at which donations are declared may actually contribute to public unease.

That said, it is important to note that donations are not simply a means by which institutions or individuals attempt to secure selective benefits. That simplistic notion has clouded the debates on party finance. Nevertheless, transparency is on balance a good thing, but it is not a panacea and it must be borne in mind that it imposes administrative difficulties on parties.

**Should donations be capped?**

*Questions to consider:*

- How big are donations?
- Should donations be capped?

**How big are donations?**

Large donations tend to generate the most publicity. However, this can distort the real picture as regards the general situation in terms of the size of party donations. For example, using the Electoral Commission’s data for donations during the whole of 2001 (or at least from February – when PPERA 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 individual 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 £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 issue that a significant proportion of their donated income came from very few sources, the top three alone accounting for £8.5 million.

**Should donations be capped?**

The controversies over large donations have provoked calls for a capping of donations. There is a case for limiting the size of donations. For example, there may be democratic concerns where a party receives a considerable proportion of its income from one or

few sources. Though parties must declare the identity of its large donors, thus satisfying both transparency and any perceived public ‘right to know’, public confidence may not be reassured by the fact that these sources may provide such a significant proportion of the party’s income.

It may be argued therefore, that limits should be placed upon the size of any individual donation. This is for three principal reasons. First, parties in receipt of large donations may be so unfairly advantaged that electoral competition becomes distorted. Secondly, parties should not become over-dependent on a narrow income base: this is a practical consideration (as well as one concerned to avoid illegitimate pressures) because withdrawal of a large donation could result in a party experiencing financial difficulty. Thirdly, by limiting the size of an individual donation parties would be required to widen their supporter base and thus increase popular political involvement.

However, without additional funds from other sources capping donations would only serve to hinder the political parties. To be sure, donations of such magnitude can create unease. However, if parties have no other sources of income on which they can rely, the capping of such payments could leave them in financial difficulties. Thus, there is a case to be made that capping should only be introduced if state funding were to be extended. Only then could parties effectively be compelled to seek many smaller donations without the risk of financial ruin. On balance it is probably appropriate to cap donations in the long term, but not before alternative sources of income are found. To do so would risk damaging the parties severely which would not serve any good.

Conclusions

Since transparency alone does not alleviate public concerns over party finance, it may be appropriate to impose upper limits on donations. However, the ‘problem’ of large donations is arguably overstated. Most donations are not that large. More importantly, however, any attempt to restrict the size of donations must consider the financial implications for parties. Without alternative sources of income, a donations cap would create severe financial difficulties for the parties, which is in nobody’s interests. That is not to say that spending caps are a bad idea. They could be introduced in the long term, but only when alternative sources of income were available. Realistically, this means more comprehensive state funding.
Are spending caps a good idea?

Questions to consider:

- What is the case for an even electoral playing field?
- Are campaign spending caps appropriate to limit the ‘arms race and what is the potential impact on turnout?
- What was the impact of spending caps at the 2001 election?
- Does campaign spending matter anyway?
- Do spending caps on parties unfairly advantage ‘third’ parties?

What is the case for an even electoral playing field?

The importance of money in politics is fundamental, for it can affect political spending and contributes to debates concerning political equality. Some claim that money distorts this equality. They argue that since all citizens have an equal right to political participation, so all interests should receive financial support in proportion to their adherents. The reality is, however, that wealthy groups are represented beyond the proportion of their number. Inequalities in money are greater than any other inequalities of the resources that go into political life, because money can buy virtually all of the resources that are given directly by citizens. Money is essential for the very existence and survival of political parties, but debate has tended to suggest that disparities in the financial endowment of parties distorts electoral competition in favour of the most wealthy party. The logic of this argument is simple - namely that increased spending capacity provides parties with greater opportunities to promote themselves to voters and the exploitation of such opportunities will result in electoral payoffs. Consequently, it is argued that unregulated political finance fails to guarantee a level playing field in the competition for power, thus undermining the right to equal political participation. On that basis, caps on campaign spending are justified.

That said, claims that party expenditure may be electorally significant are based upon the idea that money is a constant sum. The implicit assumption is that a resource (in this case money) will be used with equal degrees of skill. However, there is a good theoretical case to be made against this assumption. For example, if I were to give £100 each to three election candidates with the instruction to use that money to promote their candidature, it might be that each would choose a different manner in which to promote themselves. Candidate A might produce 1,000 leaflets, Candidate B might produce one large poster and Candidate C might spend the money on a loudhailer for his or her campaign vehicle. Despite the initial sums the same, their electoral impact might not be identical. Money would not therefore be a constant sum. Even if all three candidates produced 1,000 leaflets, there is no guarantee that the leaflets would be equally well received or that they would have an equal impact on the vote, since the leaflets could be produced with varying degrees of skill. As a consequence, it is simplistic on one level to automatically equate increased spending with increased electoral payoffs.
Spending, Campaigning and Turnout
A flaw in the argument for spending caps is the focus on election campaigns. Studies of party consistently demonstrate that most party expenditure is not spent on campaigns – rather it is spent on routine maintenance of the parties’ infrastructure. Since parties are competing continually throughout the electoral cycle, limits on one area of expenditure are perhaps ineffective in evening out party competition.

Moreover, the question must surely be raised as to whether it is desirable to restrict campaigning, since this is a device of political communication and political education. At a time when there are concerns regarding levels of political engagement, there is a case to be made that political communication should not be restricted. Indeed, evidence from studies of constituency campaigning (Denver & Hands, 1997, 1998) repeatedly point to the fact that more intensive campaigning boosts electoral turnout.

Impact of Spending Caps – Evidence from 2001
Spending caps in the PPERA created tensions for the two principal parties by imposing opportunity costs. Thus, if one million was spent on X, then that was one million that could not be spent on Y,Z,A,B,C etc. Thus, these parties had to review their spending in order that it should be most effective. For local parties, the new legal regulations did cause a few difficulties. Combined with changes to postal voting and rolling registration, local parties faced a heavier workload. Local parties reported difficulties with recording donations, the question of imprints on leaflets, and generally learning the new legal requirements. Whilst new regulations were welcome, local parties will take time to adapt to them fully.

For all that, the sums spent on campaigns provide only a partial picture. All parties designed their campaigns in part for additional ‘offspin’. For example, Labour did not spend a great deal on electronic campaigning, but gained a great deal of coverage from it. The Conservatives erected their final campaign poster on only twenty sites, but its contents shaped the final week of the campaign. The regulation of campaign broadcasting to ensure broad equity is therefore essential if the new regulations are to succeed in evening out the impact of electoral spending. In other words, it is pointless limiting what parties can spend, if broadcasters only feature one or two parties.

Does Spending Matter Anyway?
Whether or not disparities in the levels of spending make a decisive difference to party fortunes is a debatable point. Capping of expenditure limits was introduced partly to level the playing field – especially with the retention of the ban on commercial TV advertising. Yet, the evidence for the putative electoral payoffs of any spending remains mixed. Johnston & Pattie have consistently shown a link between spending at constituency level and electoral success. These analyses show that on average the Conservatives spend most per constituency (Johnston & Pattie, 1995) and the greatest proportion of the maximum permitted by electoral law (Johnston & Pattie, 1995; Pattie, Johnston & Fieldhouse, 1995). For all parties, increased spending at constituency level improves electoral performance within that constituency (Johnston & Pattie, 1995).
Yet Fisher (1999) has demonstrated that at national level the relationship between spending and electoral payoffs is anything but conclusive. Increased party expenditure at the national level can have a positive electoral effect, but this is difficult to show on a consistent basis. 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% increase in Conservative poll ratings – a minute amount. Overall, the case suggesting that national party expenditure has a positive effect on electoral fortunes is difficult to sustain.

A possible reason for these different findings is that whereas at constituency level, the types of expenditure in each election are fairly routine, at national level, these may change significantly from year to year. Since money may be used with differing degrees of skill, the impact of spending more money will not be so likely to lead to electoral payoffs. As a consequence, the principal impact of the new spending regulations is likely to have been one of changing the proportions spent on campaign items, rather than levelling the electoral playing field.

**Do spending caps on parties unfairly advantage ‘third’ parties?**

One of the issues which the Neill Committee recognised was the position of ‘third parties’ in the electoral process. The Bowman ruling effectively ensured that the legal position of these actors would need to be re-examined. The principle of non-partisan activity was legitimised by the Act, there was, nevertheless a deliberate attempt to exert the supremacy of conventional electoral contests over the freedom of ‘third parties’ to campaign to the extent that they might wish.

Nevertheless, the limits on ‘third party’ spending 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. Calls to lower the level of the spending cap – far from promoting democratic ideals – potentially provide more influence for unelected and largely unaccountable third parties.

**Conclusions**

Overall, it is arguable that national spending caps do little to level the electoral playing field. First, it may even the spending battle between the two main parties, but the gap between them and the Liberal Democrats remains as large as ever, because the Liberal Democrats’ fund-raising ability is limited. Secondly, there is no empirical evidence that increased national spending is actually effective in electoral terms. Finally, and perhaps most seriously, spending caps have the potential to disadvantage
parties relative to ‘third’ parties and especially the media. Essentially we have to ask ourselves whether we want to disable parties so that the political agenda is controlled by the unelected and unaccountable mass media.

Is the mainly voluntary system of party finance effective?

Questions to consider:

- How well do patterns of party income match patterns of party expenditure?
- What factors determine levels of party income?
- What impact can spending caps have on party income?

Income and Expenditure Cycles

The absence of regular extensive state assistance to parties has had the effect of producing a funding cycle based around the electoral cycle of British general elections. This funding cycle leads to two principal problems for parties. Firstly, most expenditure for British political parties is routine, generally constituting around 80% 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 (every five years), in devolved institutions (every four years) and across large proportions of the country in the various staggered local elections. And with the government committed to extending its devolution programme, parties will be campaigning even more.

The result is that, whilst voluntary funds tend to be cyclical, party expenditures are much less so. As a result, parties find themselves routinely in deficit, not necessarily by excessive campaign spending at general elections, but through simply trying to operate upon a routine basis. An examination of party expenditure as a proportion of income over time reveals this problem for all three main parties, though it is most acute for the Conservatives.

What factors determine levels of party income?

Empirical tests suggest that it is the general election cycle that primarily promotes variation of party income rather than it being a reflection of their economic performance. Parties are better funded when there is low inflation (overseen by either party) and in the run up to general elections. The performance of parties (at least in economic terms) does not appear to affect their income to any significant degree (Fisher, 2000a). As a consequence, it may be argued that parties have less control over variations in their income. No matter how well a party performs in government
or opposition, their voluntary income is not affected. What matters, is when general elections are held.

The implications arising from this are clear. Whilst funding appears to reflect the general election cycle, the needs of parties do not. Parties must function at both routine and campaigning levels throughout this cycle, yet income largely remains a function of one electoral cycle. This has two principal effects. For the Conservatives, it has led to continual overspending. Labour has generally resisted this trend, but for both parties the implication is that resources cannot be devoted to all functions to the degree that might be deemed desirable. Even in the area of campaigning, parties can clearly dedicate only a limited proportion of their resources to second-order (non-general) elections. Since levels of campaigning are positively correlated with turnout (Denver & Hands, 1997, 1998), this has potentially wider implications. Beyond the importance of campaigning, income based upon the general election cycle leads to problems of parties fulfilling their other functions – two of which are political education and communication, which again are likely to be variables with the potential to affect electoral turnout. The Policy Development fund should address some of these problems, but not those of maintaining parties’ infrastructures.

Thus the basis of voluntary income as an effective means of distributing funds to competing parties is seriously questioned. Parties require funds to operate on a constant basis, yet often struggle for resources and cannot entirely predict their own income, since they are not necessarily rewarded for success or punished for failure. It is difficult then to sustain any argument that parties must compete for income. As such, if we accept the case that healthy political parties are an important aspect of democratic life, then the case for providing more comprehensive public assistance becomes at least, a little stronger.

**What impact can spending caps have on party income?**

The Neill Committee argued that national spending limits would curb parties’ need for ever-increasing resources and also cast doubt upon the arguments that parties were under-funded. There is merit in this view, but it is based on the assumption that campaigning is excessive and requires curbing. This is a debatable point since, by definition, campaigning raises the electorate’s political awareness and possibly the level of political education. Moreover, 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.

**Conclusions**

The problem for parties is not that they have too much money, it is that they have too little. Voluntary income does not provide parties with sufficient income to fulfil their increasing functions. Underlying the notion of the voluntary basis of party funding is the principle that funds are provided voluntarily by supporters in response to continuing support for the party. Parties therefore succeed or fail financially depending upon whether they retain support. However, it is clear that electoral
considerations, rather that economic performance, are the best predictor of party income and that, empirically at least, the case for more comprehensive public funding is stronger. In short, the assumption that parties may have control over their income by virtue of their performance is seriously undermined. Thus the basis of voluntary income as an effective means of distributing funds to competing parties is seriously questioned. Moreover, spending caps have the potential to exaggerate these problems.

**Overall Conclusions**

To return to the Introduction, it is in many ways, odd to considering further reform only a year or so after the most radical overhaul in party finance for over 100 years. However, it is true to say that public unease over party finance has not subsided as a result of the PPERA. In many ways, it has grown. What accounts for this growth? Certainly, the greater availability of information makes it easier for interested parties to make links between donations and outcomes. Secondly, the greater availability of information is likely to have led to more press interest in the issue – certainly, it seems as though party finance and state funding have suddenly become ‘flavour of the month’. Finally, of course, it may be that impropriety is occurring.

So in one sense, it is legitimate to ask the question of whether more reform is needed so soon after the last reform. But, if the question is to be asked, reform should be approached with caution. First, as with all legislation, the positive effects of the PPERA will take time to ‘bed in’. Secondly, any decisions about further reform must be based on the basis of empirical evidence and not knee-jerk assumptions. Without wishing to appear confrontational, the level of ignorance surrounding many aspects of party finance amongst opinion-formers is striking at times. Thirdly, any attempt at further reform must consider a central consideration the comprehensive and thorough analysis of the Neill Committee – namely that political parties are central to democracy. Overall, whilst I do favour some further reform, it is difficult to consider anything significant without first introducing the most fundamental reform of all – comprehensive state funding of political parties.

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