



GRESHAM COLLEGE  
*Founded 1597*

## **Party Finance and the Constitution Transcript**

Date: Tuesday, 28 March 2006 - 12:00AM



# PARTY FINANCE AND THE CONSTITUTION

Professor Vernon Bogdanor

1. Political parties are rarely popular. Yet, they are essential to democracy. Indeed, no democracy known to me functions without political parties. 'Without parties', the great 19th century Conservative Prime Minister Benjamin Disraeli once said, 'parliamentary government is impossible'. A healthy democracy, therefore, requires healthy political parties.

2. Most of us probably think that, in a healthy democracy, political parties ought to be financed entirely from individual membership subscriptions and voluntary contributions from individual donors, with perhaps a limit attached to donations to prevent the illegitimate purchase of political influence. Yet, no democracy known to me meets this criterion of political health. In every democracy known to me, membership subscriptions are supplemented in a number of different ways.

3. The pattern of political finance with which we in Britain were familiar until recent years was one in which the two main parties - Labour and the Conservatives - relied for a considerable amount of their funding upon institutional donations - from trade unions and companies. Just over thirty years ago, the Labour Party was financed almost wholly by affiliated trade unions. These trade unions contributed no less than 92% of the Party's central income. Since then this proportion has fallen steadily and it is now just over 25%. This fall predates Tony Blair's leadership of the Labour Party in 1994, but, nevertheless, accurately reflects a trend in 'New Labour' thinking that the Party should present itself as a party of the nation, and not merely of the organized working class. Tony Blair himself declared in September 1995 that 'Nobody believes in this day and age that the business of the Labour party is to be the political arm of the trade union movement'.

4. The financing of the Conservative Party has traditionally been quite different from that of Labour. In the past, the bulk of its income came from company donations - the figure in 1981 was between 55% and 60% - it is difficult to be more precise, since at that time the Conservative Party did not publish its accounts. Today, even though accounts are published, they do not enable one to distinguish between company and individual donations. Company donations, however, now require the approval of shareholders, and it is reasonable to suppose that their proportion has fallen in relation to individual donations.

5. What is striking about both of the major parties - and the picture is not substantially different for other parties such as the Liberal Democrats, is the comparatively small proportion of their income which derives from membership subscriptions. In the year 2004, a pre-election year, Labour raised just over 10% of its income from membership subscriptions, and the Conservatives under 5%. The idea that we perhaps all have in our minds of the parties relying on the sixpences of their members is quite false. Membership subscriptions constitute a very small part of their central income.

6. In the case of both of the major parties, the institutional sources of finance - money from trade unions and companies - has been in large part replaced by individual donations. For Labour, donations comprise nearly one-third of the Party's central income - for the Conservatives around 65% of their central income. An important consequence, therefore, of the declining role of institutional finance is a greater reliance on individual donations - or, to put it more starkly, on large donations from very rich people.

7. But, here too, the parties have run up against difficulties. For, in the year 2000, the Labour government passed a Political Parties, Elections and Referendums Act. One of the requirements of this Act was that bona fide political parties were required to register with the Electoral Commission, which was established by the Act, and to publish their accounts. They are also required to publish the names of anyone who gives more than £5,000.

8. This Act is of very considerable constitutional importance in that it alters the status of political parties. For, until the year 2000, the parties were treated as voluntary organizations, on a par with golf clubs or tennis clubs, and that is perhaps the way in which many people still perceive them. Yet, the general public has a legitimate interest in the way in which political parties are organized. It was, surely, an anomaly that a political party organizing itself so as to become the government of the country, was not subject to the basic requirements of reporting and accountability to which charities, trade unions, building societies, and limited companies were subject. They were, before the Political Parties Act, not required to present accounts which declared where they raised their money and how they spent it. There has been much criticism of the Labour government in recent days, much of it justified. Yet, to counterbalance this criticism, it ought to be remembered that the government has put in place a

much improved framework for party finance, for accountability and disclosure. Without that, we would never know the names of wealthy donors to political parties, and those who have given loans could have instead given massive donations and been rewarded with honours without the connection being publicly known.

9. Part of the purpose of the Political Parties Act was to secure greater transparency in the funding of political parties. An American Supreme Court Justice, Justice Brandeis, once said that, with political funding, sunlight was the best disinfectant. There had been allegations in the past that honours – knighthoods, peerages and the like – had been given in exchange for large donations to party funds. But these allegations could not be tested since donations were confidential. Now, however, much has been revealed. We know, for example, that in January 2001, one wealthy businessman gave £5m to the Conservatives, a sum amounting then to over one-third of their annual income. But the businessman in question declared that his support for the Conservatives was contingent upon the party remaining Eurosceptic and keeping Kenneth Clarke out of the leadership.

10. However, one consequence of the Political Parties Act has been that it has become more difficult to secure large donations from rich individuals. Many such individuals do not like the publicity involved and many feel that, if they do receive an honour, they will be accused of having bought it. Moreover, it is the task of the House of Lords Appointments Commission to scrutinize all nominations to peerages to ensure that they are not being given merely in exchange for large donations to a political party. In the future, it is perhaps fair to guess, giving a large sum of money to a party will seem a positive handicap to anyone who seeks an honour.

11. Precisely because it has become more difficult to raise individual donations, the parties have sought to raise money in other ways, primarily through loans. For the names of lenders, unlike those of donors, do not have to be declared. But this, of course, leads to the problems that have become all too familiar to us over these last few days. **The basic problem is easily stated. It is that too high a proportion of the money funding British political parties is tarnished. The finance of our great political parties should not have to depend upon the vagaries of the rich. Democracy cannot be sustained by handouts from millionaires.**

12. One alternative method of financing the parties that has been much discussed in recent weeks is through the use of public funds. That, in fact, is the pattern in almost every Continental democracy. Parties in most Continental countries receive money from the state in proportion to votes won or seats gained, subject to a threshold, a minimum requirement of support in terms of either the percentage of the vote gained or the number of members, below which a party will not qualify for funds. Something similar was proposed for Britain last week by the new Conservative leader, David Cameron.

13. In the United States, which most of us regard as the home of free enterprise, there is, also, state aid, but it takes a different form. It is triggered through the decisions of individual citizens, whose donations to candidates qualify for tax relief or tax credits. But, in order to receive public support, a candidate for the presidential nomination of a major party must accept limits on campaign spending and limits on individual contributions. Subsidies are also paid towards the cost of national presidential nominating conventions. To receive these benefits, candidates and parties are required to meet certain requirements of democratic accountability and disclosure. It is perhaps worth pointing out that such champions of free enterprise as Ronald Reagan and George W. Bush have been perfectly happy to accept state aid in exchange for these conditions. Canada has a not dissimilar system.

14. A system similar to that operating in Canada was proposed for Britain by the Neill Committee on Standards in Public Life. It suggested that small donations to political parties should attract tax relief. This idea has been supported by the Electoral Commission. The trouble with it, however, is that would be inequitable to those who do not pay income tax. Many in the audience will probably be surprised to learn that, out of about 47 million adults, around 21million do not pay income tax. They comprise people such as, for example, students, pensioners and non-working partners, who are mainly women. There is no reason why they should be discriminated against when it comes to supporting political parties, since, in a democracy, they should be able to exert influence equally with those of their richer countrymen and women who do pay tax.

15. It is worth looking again, therefore, at the idea of public aid to the political parties. There is perhaps more misunderstanding about this than any other political or constitutional issue. How many people are aware, for example, that the state pays the salary of the Leader of the Opposition, that the state delivers election addresses free, that the state pays for party election broadcasts, that the state pays the opposition parties to assist them in carrying out their parliamentary tasks, and that the state provides Policy Development Grants to the parties. Let me elaborate.

16. In 1937, the Ministers of the Crown Act recognized the position of Leader of the Opposition, and assigned a salary to the post. The importance of this is that it recognized that an effective opposition is just as important to the health of democracy as an effective government. The opposition, after all, is Her Majesty's Opposition. In 1999, this was supplemented by a specific allocation for the Leader of the Opposition's office, amounting currently to nearly £600,000

17. The state also subsidises the political process in a number of other ways. Public meeting rooms are provided free to candidates at election time and their election addresses are delivered free by the Post Office. Gifts to political parties are exempt from inheritance tax and small bequests are exempt from capital transfer tax. More important, perhaps, is the fact that, in Britain, unlike the United States, the parties cannot advertise or buy time on radio and television. Broadcasters are required to carry party election broadcasts in the immediate pre-election period. To purchase the time for these broadcasts would cost well over £10 million for each party. The ban on buying time helps less well-resourced parties, since it prevents a richer party from purchasing extra media time for itself. In the United States, by contrast, where there are no subsidized party or election broadcasts, around 85% of campaign finance is spent on advertising, the vast bulk of it, television advertising. The ban on buying time helps to contain our political expenses and make us amongst the most economical of all democratic systems in terms of expenditure on elections.

18. In addition, funds are made available to the opposition parties in Parliament to assist them in carrying out their tasks. In the House of Commons, these funds are known as 'Short money', not because the amount is small, but after Edward Short, who was Leader of the House of Commons in 1975, when these funds were introduced. The amount of money paid to each party is calculated on a formula related to the support which parties gained at the previous general election. Since 1994, there have been annual upratings linked to the retail price index. Around five and half million pounds is currently spent in the form of 'Short money', and there are also funds to aid the parties in the House of Lords.

19. Finally, the Electoral Commission provides a Policy Development Grant to assist the parties in developing policies for inclusion in their manifestoes, amounting in 2004, to £440,000 for the Labour and Conservative parties and equivalent grants to the other major political parties.

20. The issue of state funding, therefore, I hope you will agree, does not involve the introduction of a wholly new principle into British politics, but rather the extension of a principle, long accepted, since 1937, when the payment for the Leader of the Opposition was introduced. In fact, we already have a system of state aid to political parties – but it has evolved in a peculiarly British fashion in an ad hoc way and without being acknowledged for what it is.

21. It is often said, however, that the parties do not need as much money as they get. They could, so it argued, easily cut down on wasteful campaign expenditure such as, for example, poster advertising which seems to have little effect in converting voters to their cause. Yet, it is vitally important, surely, for the health of democracy that the opposition parties have sufficient funds to produce serious and well thought out policy proposals to combat those of the government, and to conduct effective policy analysis. What the opposition parties need is a thoroughly professional counter civil service to combat the real civil service which works for the government, and which produces, as many of you will have seen, at Prime Ministers Questions, answer books carefully written and annotated by teams of bureaucrats. We cannot complain, as we so often do, that manifesto commitments are ill thought out, and also complain that the parties have too much money. For sophisticated policy-making machinery is bound to cost money. The alternative is that opposition parties come to power with inadequately developed policies, and that causes damage to the country.

22. Nevertheless, many people still feel hostile to state aid to the political parties. Much of the hostility derives from the feeling that taxpayers ought not to be asked to subsidise parties with which they disagree. If the parties themselves cannot raise sufficient funds, it should not be for the taxpayer to step into the breach. If a party is in financial difficulties, the remedy lies in its own hands. It must seek to become more popular, to attract more money. Alternatively, it must scale down its activities. The danger of state aid is that it could give an artificial lease of life to parties which are losing popular support. Moreover, state aid, some would argue, would discourage public participation in politics by making the parties over-reliant upon public funds, and too little reliant on subscriptions from their members. Thus, they would become even more remote than they are already from their members and supporters.

23. Perhaps, however, these objections could be overcome if state aid were made conditional upon some index of democratic and party activity, such as party membership. We have already seen that the US and Canadian patterns of party finance are based on the principle that state funding to political parties and candidates should be based upon some visible index of public support. State aid is thus not unconditional but needs to be 'triggered' by the decisions of individuals to contribute through the

tax system. It is thus conditional upon popular endorsement of particular parties and candidates, and this provides an incentive for parties and individual candidates to seek new supporters.

24. We saw, however, that an important objection to such a scheme based upon the tax system is that it discriminated against those who do not pay income tax. But, perhaps, the principle of such a scheme whose aim is to relate aid to an index of democratic activity could be adapted so that it would no longer be inequitable.

25. One way of doing this would be to tailor state aid to party membership subscriptions and donations. Suppose that, for every £20 raised in subscriptions or donations, the state paid a matching £20 to the political party in question. With a figure set at £20, the state would then be matching only small donations and not substantial gifts by the wealthy. Higher subscriptions and donations, while welcome, would not attract more than a £20 matching payment; and there would be a limit on individual donations at a fairly low level, say, £10,000. There would be a maximum, a ceiling, on what each party could receive in any one year. This could be calculated either in terms of a proportion of a party's voting strength at the recent general election; or, alternatively, in terms of a certain level of party membership. Let me give an example. The Labour Party's membership is currently around 200,000. The maximum could be set at a level of a membership of, say, 500,000. There would also be a minimum threshold below which a party would not receive aid. That would be used to deter purely frivolous parties. A party would have to show that it was capable of winning serious electoral support before qualifying for the matching aid. The threshold might be a certain number of votes cast at the last general election.

26. A scheme of this type might encourage the parties to seek new members rather than relying, as perhaps some constituency parties do, on a small team of old faithfuls. It might encourage the parties, therefore, to broaden their appeal by seeking a larger number of small donations, rather than, as at present, relying upon a small number of donations from a few very wealthy individuals. The constituency organizations of the parties could become much livelier and more representative organizations than they are today. If that happened, state aid could play a real part in helping to combat apathy and disaffection from politics, a feature of British politics which we have noticed in previous lectures in this series. It is perhaps worth remembering that the Conservatives, who now have a membership of around 300,000, had as many as 2,800,000 members in 1953; and, in 1975, when Margaret Thatcher became leader, a million and a half members. The Conservatives have thus lost four in five of their members since 1975, although they have been in power for over half of that period. Labour too had a much higher individual membership in the 1950s, peaking at over one million members in 1952. At the end of 1996, following membership drives by both John Smith and Tony Blair, membership was just over 400,000. Labour has thus lost one in two of its members during the period when the Party has been in power. The low level of party membership has been much commented upon. Indeed, all three parties together have fewer members than those who belong to the Royal Society for the Protection of Birds.

27. Compared with the systems in operation in many countries, party funding in Britain remains, despite the criticisms that can be made of it, a success story. Corruption is far less than in many Continental countries or the United States, and election campaigns in Britain are not particularly expensive by international standards. Nevertheless, there remain serious weaknesses. Perhaps a system of state aid tied to an index of democratic activity such as membership subscriptions to political parties, could help to remedy these weaknesses and stimulate that voluntary activity which is so important a part of our democratic life. Perhaps, therefore, the public funding of political parties could help to strengthen our democratic system.

28. The basic issue is not one of freedom versus the state, since, as we have seen, the parties are already recognized in law by the state, and subject to various legal requirements by the state. Moreover, they already receive much state aid. The issue rather is whether the parties should continue to rely upon the sometimes tainted generosity of large donors or on their members. Most of us, surely, would feel that the latter alternative is the one which is likely to prove more conducive to the health of our democracy.