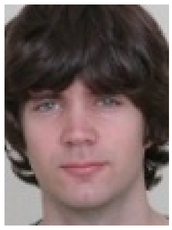
# After significant reforms, Canada's political parties now have their income and expenditure closely controlled, and are more dependent on public funds.



*Many democracies including the US and UK have struggled with party funding reform. Canada is unusual in its ban on funding from corporations and trade unions. As part of USApp's coverage of US neighbors, Canada and Mexico,* **Stephen Crone** *examines how party funding had been reformed in Canada. In the last decade, Canada has seen its regulatory system for party funding shift rapidly from one of spending controls and moderate public funding, to one where both income and expenditure are exhaustively regulated, and parties rely to a far greater extent on public funds.*

The first Canadian foray into political finance regulation came in 1874, with the *Dominion Elections Act* establishing a very limited system of candidate expenditure reporting. Based on Britain's *Corrupt Practices Act* of 1854, the legislation was passed largely in response to the "Pacific Scandal" of 1873. Further efforts at reform were attempted during the first half of the twentieth century, but these are generally considered to have been piecemeal and ineffectual. Indeed, the first 'major' reform of Canadian party funding law did not arrive until a hundred years after the *Dominion Elections Act*, when, in 1974, the *Election Expenses Act* was passed with the support of what were then Canada's three largest parties (for details of the Act, see Box 1 below). The 1974 Act marked a sea change in Canada's approach to party finance regulation; the liberal Victorian legacy was ditched, and was replaced instead by a more rigorous system of expenditure controls, increased transparency and moderate public funding. By successfully addressing the growing concern with the Canadian system of political finance, moreover, the Act lasted more or less unchanged for almost thirty years – a longevity which many have attributed to its general effectiveness.

**Box 1: The *Election Expenses Act* (1974)**

Through amendments to the *Canada Elections Act*, the *Election Expenses Act* introduced:

1. Expenditure limits: spending by candidates, political parties and third parties was capped for federal elections.
2. Disclosure requirements: candidates and parties were required to submit details of their revenues and expenditure.
3. Enforcement: an independent commissioner was appointed, charged with ensuring compliance with the new regulations.
4. Indirect state funding: tax credits were introduced for donations up to a certain limit; certain campaign expenses became eligible for reimbursement by the state – provided eligibility criteria were met.
5. Free broadcasting time: rules were introduced to ensure the free and fair allocation of broadcasting time to political parties.

Canadian Parliament Credit: Sharon Drummond (Creative Commons BY NC SA)

The long period of regulatory stability inaugurated by the *Election Expenses Act* of 1974 was brought to an abrupt end in 2003, however, when a major package of party funding reforms was passed by Jean Chretien's Liberal government. A response, in part, to the series of damaging political scandals which had beset the governing party, Chretien's Bill C-24 altered the landscape of Canadian political finance dramatically. Yet unlike the *Election Expenses Act* of 1974, Bill C-24 did not command full cross-parliamentary support: the Progressive Conservative Party and the Canadian Alliance both opposed the Liberals' bill, and their successors – the Conservative Party – have since gone on to make further radical changes to the laws when in minority government between 2006 and 2011. Indeed, Stephen Harper's newly-elected majority government has recently announced its intention to phase out one of the cornerstones of the 2003 settlement, the money-per-vote subsidy, in a move which is widely-expected to have devastating financial consequences for Canada's opposition parties.

**Box 2: Provisions of the current system**

The Liberals' amendments to the *Canada Elections Act* and the *Income Tax Act* by Bill C-24 in 2003 – as well as the Conservatives' own *Accountability Act* of 2006 – have created a system with the following additional features:

1. Donation caps: trade unions and corporations are no longer permitted to donate to candidates or political parties. Individual donations are allowed, but are capped at $1,100.
2. Enhanced disclosure requirements: all political entities – including district party associations, nomination contestants, leadership contestants, third parties, political parties and federal election candidates – must now register and report with Elections Canada. Parties must submit quarterly reports.
3. Enhanced expenditure limits: nomination candidates are now also subject to spending limits.
4. Direct state funding: parties receive a quarterly allowance based on the number of votes won at the previous general election, now set at a rate of $2.04 per vote after adjustments for inflation.
5. Increased indirect state funding: the tax credit scheme was extended and the level of reimbursement for campaign expenses was increased.

–

During the last decade, the Canadian regulatory system has thus shifted rapidly from a regime of spending controls and moderate public funding, to a system where both income and expenditure are exhaustively regulated and parties depend to a far greater extent on public funds (for further details of the current system, see Box 2 above). This makes Canada unique among countries of the Westminster tradition: neither the UK, New Zealand or Australia have sought to restrict party income to the same extent as Canada, *or* offer such generous public subsidies. Yet the failure of the Liberals to implement this new system consensually arguably placed it in jeopardy from the very beginning. Indeed, by establishing a precedent for unilateral action with respect to party funding regulations, the issue has since become something of a 'political football' – with additional, partisan reforms passed by the Conservatives which entrench the advantages accidentally granted to them by the Liberals' legislation of 2003.

**Canadian party funding regulations under the microscope**

Though its future may now be imperilled following the election of a Conservative majority government in 2011, the system of party finance regulation introduced by the Liberals in 2003 – which includes the now doomed money-per-vote public subsidy – has actually had a number of salutary effects on Canadian democracy. Admittedly, these benefits are scarcely ever the ones imagined by official inquiries into party funding in other countries, like the UK. There is little evidence, for instance, to support the expectation that the per-vote-public subsidy would promote stronger local party organisation in Canada, or indeed that it would 'get the vote out even in those areas where [parties] did not traditionally succeed'. Similarly, the UK Constitutional Affairs Committee's bold claim that the Canadian example shows how 'radical changes in the way party finance is regulated and supported' are possible 'without losing the traditional links between institutions and parties even when financial links are removed', only captures half of the truth. Although, overall, the Committee was correct that, in Canada, the NDP-union link has persevered despite the banning of trade union donations to political parties, its very brief account necessarily failed to mention any of the other negative or ambiguous side-effects that the ban has had on the relationship between the two groups.

On the other hand, however, there remain a whole series of positive effects of the current Canadian system which inquiries in the UK have previously failed to consider. Nowhere has it ever been mentioned, for instance, how increased public funding has impacted on diversity within the Canadian party system. This is important, as contrary to critics' concerns that public funding of political parties ossifies party systems, money-per-vote public funding in Canada has in fact opened the door to parties, such as the Greens, that were previously left outside the exclusive parliamentary club. Indeed, one could argue that, in many ways, the introduction of stricter donation restrictions and more substantial public funding has created a far more equitable and democratic balance of financial power in the party system. Keith Ewing, for instance, rightly argues that, although Liberal financial hegemony has, essentially, been replaced by that of the Conservative Party in recent years:

> *'it is hard to deny that this is a better inequality than the inequality that existed before the legislation was introduced. It is better because it is based on levels of grass-roots support, it is an inequality that is not accounted for by large donations from sources of doubtful legitimacy.'*

Similarly, while the UK's Constitutional Affairs Committee's report on party funding may have looked at the impact of trade union and corporate donation bans on the links between the NDP and trade unions, no official report has considered what effects the new donation restrictions have had on political equality. Some argue that by proscribing corporate and union donations, the responsiveness of political parties to ordinary citizens (as opposed to 'special interests') will increase. There is some evidence to suggest that this may have happened in Canada, as although turnout has remained stagnant, the number of individuals donating to political parties did increase by 37,564 over a four year period between 2002 and 2006, representing a 27 per cent increase in the 'pool' of donors.

It is impossible, of course, for any party funding regime to fully excise the influence that wealth can have in distorting the democratic process. Despite the egalitarian emphasis of the donation caps introduced in 2003, there is some evidence to suggest that they have led to the emergence of US-style "bundling" techniques to circumvent the law. Nevertheless, while the reforms to the Canadian system of party finance may have minor shortcomings, they have also provided clear (if 'modest') benefits. The legislation has not, of course, created perfect political equality between citizens or led to any real revival in grassroots activity; but it has probably succeeded in reducing political inequalities, increasing the responsiveness of parties to the electorate, opening up the party system, and broadening the parties' funding base. Though donations by individuals to political parties in Canada may continue to create some possibility of plutocratic influence, there is little evidence, moreover, of a 'big donor' culture comparable to that in the UK. It is for these reasons – rather than the ones imagined by official inquiries – that the attractiveness of the Canadian model elsewhere is understandable.

*Note: This post is an extract from 2011 Democratic Audit of the UK report, which can be viewed in full here.*

*Please read our comments policy before commenting*.

*Note:  This article gives the views of the author, and not the position of USApp– American Politics and Policy, nor of the London School of Economics.*

*Shortened URL for this post:* **http://bit.ly/14FDsVg**

---

**About the author**

**Stephen Crone**
Stephen Crone is a former Research Associate of Democratic Audit, and a co-author of the 2012 audit of UK democracy.