

The UK can learn from Canada in reforming trade union and corporate funding of parties

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By Democratic Audit UK

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This morning the GMB trade union announced a [significant cut](#) in its funding of the Labour Party, following Ed Miliband's proposals for reform of the party's links with unions. In previous research for Democratic Audit, **Stephen Crone** examined how party funding had been reformed in Canada, which included a ban on trade union and corporate donations to parties. Here, in an extract from his report, he considers what lessons the UK can learn from the Canadian system.



Canada does not allow union and corporate donations to parties. Credit: Nick Efford (CC BY-SA 2.0)

The regulation of Canadian political finance: a short history

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 year 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.*

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*

During the previous 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, 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 UK official inquiries into party funding. There is little evidence, for instance, to support the expectation that the per-vote-public subsidy would promote stronger local party organisation in Canada,¹¹ or indeed that it would 'get the vote out even in those areas where [parties] did not traditionally succeed'. Similarly, the [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 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 to the UK, and elsewhere, is understandable. But just how likely is it that the UK could follow Canada’s lead on party funding law?

Transferring Canadian party funding practices to the UK

While there are clearly enormous benefits to be reaped from the implementation of a Canadian-style funding regime that marries donation restrictions with increased public funding, the likelihood of the UK implementing a similar package of reforms in the near future is close to zero. One of the fundamental reasons for this is economic. When the Canadian government introduced increased public funding of political parties during a period of relative international prosperity, it encountered seemingly little public opposition; but any proposal to do the same thing in the UK now – when education, policing and welfare budgets are being cut – is almost certain to provoke widespread public anger. That is not to say that the public are opposed to public funding, in principle. Indeed, [opinion polls](#) show that public support for public funding – *and* donation caps – is at similar levels to Canada, where such features are already a part of the system. However, politicians are probably right to suspect that any considerable increase in public funding to political parties would be impossible to achieve politically now, during a time of fiscal retrenchment – especially with the memory of the MPs’ expenses scandal still fresh in the mind of many voters.

Consequently, the only aspect of the Canadian system which could be introduced immediately in the UK are the restrictions on party income. Yet these measures are unlikely to be acceptable to all the major parties – even if proposed in a ‘watered-down’ form. Indeed, [Democratic Audit has previously warned](#) that to immediately introduce a donation cap without a compensatory amount of state funding could risk leaving political parties in a state so financially anaemic that they are unable to discharge the essential democratic functions which they provide. Though the effects of a cap on income levels would be severe for all parties, the Labour Party, in particular, would be especially unlikely to agree to a cap or ban on institutional donations due to its dependence on large contributions from the trade unions. In fact, even if generous public funding *were* part of a proposed settlement, the Labour Party would still not be nearly as likely to accept the severance of its union links as, say, the NDP was, as the circumstances that the NDP faced are very different to those which confront Labour. When Chretien’s reforms to party funding were passed in 2003, the NDP was the ‘third’ party in Canadian politics; it was less financially dependent on trade unions [than the Labour Party is](#); and it expected to capitalise politically from its support for the changes. In contrast, the Labour Party – as a “natural” party of government which relies to a great extent on financial support from trade unions – has far more to lose from changes to party funding rules, and can be expected to behave more conservatively, as a result [1]. As [Jansen and Young](#) acknowledge, the fact that party-union links in Canada have never been as strong in organisational or ideological terms as in West European countries, such as the UK, can also help explain why the Labour Party may be more reticent to alter the basis of their relationship with the unions than the NDP was in 2003.

Given all this, it seems logical that if the coalition government wishes to introduce elements of a Canadian system of party funding regulation, such as donation restrictions, it will have to adopt Canadian means. This would involve the abandonment of the convention that party funding reform ought to be achieved consensually, and its replacement instead by a willingness to legislate *without* cross-party agreement. Yet the risks associated with such a strategy are great. As we have seen, Canada has suffered toxic side-effects from Jean Chretien’s decision to disregard the precedent set in 1974, when the parties cooperated and forged a consensus on party funding. Where once party

funding laws, there, were stable and parties worked together, now the issue has become bitterly-disputed and unpredictable. Of course, the final decision on how to proceed with reform in this country rests with the government. But in making that decision, it should be mindful of the possibility that the benefits which accrue from passing party funding reforms unilaterally may be outweighed by the long-term instability which could result from violating the convention for consensual decision-making.

Note: This post is an extract from a 2011 Democratic Audit report, which can be viewed in full [here](#). It represents the views of the author, not those of Democratic Audit or the London School of Economics. Please check our [comments policy](#) before commenting.

[1] The leader of the Labour Party Ed Miliband has since [proposed](#) capping trade union donations to political parties at £5,000. Under his proposals this cap would not apply to funding from individual union members via the political levy.

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