

Donations to Political Parties

By Justin Fisher (London Guildhall University)

The financing of Britain's political parties has again been brought into sharp focus. Whilst the Home Affairs Select Committee Report of 1994 (Funding of Political Parties) recommended no substantive changes in the ways in which parties are funded, two factors have ensured that the question has remained on the political agenda. First, growing concern over propriety in public life led to the establishment of the Committee on Standards in Public Life, chaired by Lord Nolan. The committee did not publicly examine party finance, but, as is often the case, political scandal led to calls for an examination of party donations.ⁱ Secondly, there has been a continuing growth in large donations made by wealthy individuals, a tendency which is not wholly new but has become much more widespread. What is significant, however, is the fact that these donations are no longer directed almost solely to the Conservative Party: the major change has been that large voluntary donations are now also received by the Labour Party. However, whilst there have been new developments in party finance, two principal concerns about voluntary donations remain. First, whether donations should be publicly disclosed and, second, whether donations of the size that have been reported are desirable for the democratic health of political parties.

The prominence and type of voluntary donations to political parties has varied over time. Pinto-Duschinsky identifies the initial development growing after the Corrupt and Illegal Practices Act of 1883, with Victorian businessmen making donations, in many cases in return for honours - this is commonly known as the plutocratic period.ⁱⁱ Such practices continued until around 1922 and had a strong effect upon the internal structure of the Conservative Party. Despite the widespread practice by both the Conservative and Liberal parties, the effective sale of honours required the affairs of Conservative central party

finances to be kept secret to avoid confirmation of the practice. Formal party accounts were avoided and contributions were often held by the main party fund-raisers, the secrecy of the operation meaning that fund-raising involved only a small number of people. In fact, it seems that little has changed in terms of the apparent secrecy with which Conservative funds are collected. Many details of the party's finances are kept strictly confidential and those involved in central fund raising appear to be a small and closed group. Moreover, reports at the time of the 1993 select committee enquiry on party funding suggested that donations may well have been paid to central fund raisers themselves. In short, the sale of honours may have ended but the effects of the plutocratic era upon Conservative party organisation have remained.

The beginnings of institutional rather than individual funding (the modern era) after 1922 lie with the formation of the Labour Party, which received funds largely from trade unions. The move towards corporate institutional funding by the Conservative Party, though by no means immediate, was largely a response to this growing labour movement. Donations were sought from the business community which was concerned about the rise of socialism and organised labour. Developments were also spurred on by a desire within the Conservative Party to distance itself, in image and probably practice, from the dealings in honours. After the second world war, institutional corporate funding became entrenched as a major form of Conservative central party finance. There was high taxation in the post-war period and, unlike the first world war, the second produced no new millionaires, with less scope for large individual donations as a consequence.

However, there have been important developments in recent years which suggest that a new era of political finance may well be upon us.ⁱⁱⁱ This has been characterised by two principal developments: the re-emergence and growth of large personal contributions and the development of commercial approaches to party fund-raising. These forms of fund-raising have included high-profile party dinners and, unlike voluntary donations, they have provided

participants with some selective benefits in return. For example, a party political dinner that costs £500 or more is arguably a donation: participants can enjoy a meal and have an opportunity to meet senior politicians. This contrasts with straightforward donations which theoretically afford no such benefits. Yet it is important to note that access to politicians in itself is not necessarily a route to political influence. It may be used with varying degrees of skill, on which success may partly depend. Moreover, there is no guarantee that the individual or party that has been accessed will act upon cases that are put forward, or even take much notice. Nevertheless, those that do receive political access do at least plausibly have an advantage over those that do not.

Political and organisational background

These changes in party finance should be viewed against some critical backdrops. The Conservative Party has experienced grave problems both politically and organisationally. Politically, it has been unpopular, particularly since the exit of sterling from the Exchange Rate Mechanism on 16th September 1992. The mean opinion-poll rating of the party from the 1992 general election prior to that event was 42.7% whilst the mean rating for the remainder of 1992 was 34.6%. This downward trend has continued, such that the mean poll ratings in 1993, 1994 and 1995 were 29.7%, 25.3% and 24.9% respectively. These poor ratings have also been reflected in European and local elections. The Conservatives have sustained so many losses that they are now only the third party in terms of local government seats, whilst in the European elections of 1994 the party polled 27.9% of the vote and won only 18 seats. It has also been beset with scandals and have had a significant number of ministerial resignations. Organisationally, there are other predicaments. In recent years it has faced the problem, at a central level at least, of a considerable net deficit. By 1994/95, this stood at £15 million having reached £19.2 million in 1992/93. The Conservative Party has only published details of net liabilities since 1993, so we cannot be sure for how long it has experienced this

problem. Certainly, it has often outspent its income in individual years, although it does appear that much (not all) of the current deficit has been brought about by organisational overspending^{iv} and the deficits involved have dwarfed those run by other parties.

Nevertheless, the party has had some success in reducing its liabilities, such that the declared deficit at the end of the financial year 1995/96 stood at £7,538,000.

By way of contrast, the Labour Party has had far better fortune both politically and organisationally. In terms of opinion polls it has enjoyed consistently improved ratings. Thus from the 1992 election to the end of that year, its mean rating was 42.7%, and for 1993, 1994 and 1995 it was 45.3%, 51.8% and 56.8% respectively. In terms of local government seats it is Britain's leading party, whilst in the European elections of 1994 it built on the successes of 1989, securing 44.2% of the vote and 62 seats. Organisationally, Labour has also been successful. Traditionally less effective in attracting large individual donations, one of its recent initiatives, the Labour Party Business Plan, has largely been financed by individual donations from members or supporters, or by activities such as high-profile dinners which attract money from individuals rather than institutions. Since the Business Plan was established, it has been very successful in continually increasing its fundraising capacity, such that it now provides a quarter of central income. In general, then, it is clear that the Labour Party is diversifying its income base and, whilst trade unions continue to play a very important financial role, it has been successful in harnessing significant income from individuals. The result of Labour's improved organisational skills is that the party has been able to generate regular surpluses. Since 1990, it has generated these in all but two years and is now enjoying net current assets of nearly £3 million.

Trends in party income

These political trends have been reflected in patterns of voluntary donations for both the Conservative and Labour parties. Indeed, part of the reason for the Conservative Party's

financial difficulties has been the loss of prominent corporate donors or at least considerable falls in donation size. To be sure, donations do vary in amount and number depending upon the general election cycle, a fact which causes problems for parties since funding is required on a much more consistent basis.^v Nevertheless, the Conservatives have suffered particularly badly in this Parliament. Prominent corporate donors such as United Biscuits (whose former chairman, Lord Laing, was an enthusiastic supporter of Mrs Thatcher), Taylor Woodrow, Allied Lyons (now Allied Domecq), Argyll, British Airways and Smithkline Beecham have all ceased donations, at least temporarily, in the past three years. A part explanation is falling profits. However, more seriously for the Conservative Party, some companies have reported a desire to avoid shareholder discontent as well the view that a company operating in an international environment should avoid funding one domestic political party. If such reasons are genuine, this indicates that donations may be less likely to be forthcoming in the future. Firstly, many companies have paid little regard to possible shareholder objections to political donations in the past.^{vi} Secondly, the sensitivity to funding a domestic party when one is operating in an international context mirrors the reluctance of many multi-national companies to engage in political activity in the form of donations at national level.^{vii}

Nevertheless, the Conservatives have had some success in attracting new sources of income, though many of these have not been without controversy. Continuing a trend that had become apparent by the beginning of the decade, the party appears to be still be attracting money from abroad.^{viii} It was reported in 1994 that Peter Woo of Warfe Holdings, a prominent Hong Kong company, had made a donation of £200,000. Woo's father-in-law was Sir Y.K.Pao, the former chairman, who himself was reported to have been a regular donor (*Observer*, 2/5/94). Also from Hong Kong, donations of £100,000 are reported to have continued from Li Ka-Shing, a prominent businessman, whilst Stanley Ho, who operates in Macao, is also reported to have donated £100,000 (*Guardian*, 22/5/96). Perhaps most damaging for the Conservatives were the reports that the party had accepted a donations from

individuals linked with the war in the former Yugoslavia: first from Zanic Tanicic, a Yugoslav-born businessman (now a British citizen) who was a director of two firms on a US Treasury sanctions blacklist drawn up as a result of the war; secondly, the party was alleged to have received donations from an associate of the Serbian Rodovan Karadzic. Whilst the party denied any wrongdoing, it did nevertheless announce an internal investigation.

The Conservative Party has also looked to other techniques of fundraising which provide selective benefits. It has emerged that two 'clubs' operate: the Premier club and the Millennium club, membership of which is on a varying financial scale, members being offered benefits accordingly. The Premier club, established in November 1995 reportedly offers two tiers of membership: the tier costs £10,000 and brings invitation to suppers with ministers (these have included Michael Hesiltine and Roger Freeman); the second tier, costing £100,000, offers invitations to two dinners which the Prime Minister attends. The Millennium Club has emerged from the Conservative Industrial Fund, a historic funding body within the party: for a minimum subscription of £2,500 potential members are offered 'a unique networking opportunity to meet and interact with senior ministers at lunches, receptions and private functions' (*Observer*, 28/7/96). Reports alleged that the administrators of the clubs advise potential members that payments need not be disclosed as political donations in company accounts but can be itemised as 'entertainment'. (*Observer*, 21/7/96). Where such club memberships are classified as other than donations, there is a arguably a potential legal problem since it is contestable that the high subscriptions is effectively a donation. Of course, not all members may be representing corporate interests. Indeed, reports indicate that the targets for membership were individuals and private companies that had 'done extremely well from a Conservative government' (*Observer*, 21/7/96) because corporate money had been harder to solicit. Nevertheless, this fundraising technique may well raise ethical questions about the use of titles of state in order to raise funds for a political party. That said, it is important to emphasise again that access itself is no guarantee of

realising commercial ends, while access may also be available to non-member companies or individuals. Nevertheless, in pluralist resource terms, gains are clearly being made by virtue of making payments.

Despite these fundraising successes, the Conservative Party has still faced difficulties in reducing its overdraft. As a result, loans have been secured from a variety of sources. Constituency parties have made interest-free loans, which present few democratic problems. More noteworthy are reports that the party was loaned money from private sources and, in particular, a sum of £4 million on an interest-free basis by a member of the family of the entrepreneur Sir Graham Kirkham. The loan was apparently designed to help reduce the party's overdraft in order to improve negotiations with the party's bankers. Moreover, some suspect that the loan has now been tuned into a gift. This raises very serious questions, since the loan or gift would be the largest recorded single donation and would dwarf other donations as well as most payments from trade unions to the Labour Party, even in an election year.

A trend that has continued, as distinct from the changes mentioned above, is the suspicion that donors are rewarded by Conservative governments. Traditionally, donations have attracted criticism because it was claimed that honours were awarded to those who contributed personally or whose companies did so. Indeed, such assertions are almost the stuff of popular folklore. More serious, perhaps have been claims in the most recent debates about party finance that donations are now being rewarded in financially beneficial ways through quangos. Analyses by the Labour Party and the press have suggested that board membership often seems to involve individuals associated with party donations. Certainly, there appears to be some correlation with reports that 150 of the 450 directors who sit on the board of the top 100 FTSE companies which had made donations have been appointed to quangos, whilst there were only 50 appointments from the remaining 480 directors in the FTSE top 100 companies which had not made donations (*Guardian*, 29/11/94). If there is any

truth in such claims, this presents a far more serious scenario than patronage through the Honours List, since membership of such agencies is more likely to be able to produce economic benefit.

One of the major new developments in party finance has been the readiness of individuals and businesses to support Labour through donations. It has received both corporate and individual donations in the past, although the former have tended to be few in number and of small value, while the latter, have not been of anything like the size received by the Conservatives. However, details have recently emerged of a change in these trends. First, the Labour Party accepted a donation of £1 million from the animal welfare group, Political Animal Lobby (PAL). The group had made donations to Labour in the past, as well as smaller ones to the Conservatives, Liberal Democrats and other parties, but this was its largest single donation. (PAL's founder reportedly paid £17,500 for the footballer Eric Cantona's FA Cup Final shirt at a Labour fund-raising event). It could be added that Labour's financial links with animal welfare groups extend back to 1979, when the League Against Cruel Sports made a donation of £80,000 to the election campaign.

The declaration of the PAL donation was followed by news that the then vice-chairman of Chelsea Football Club, the late Matthew Harding, had also given £1 million. Apart from the obvious delight of Labour, the news was particularly poignant since guests of Harding at Chelsea had regularly included the Prime Minister and David Mellor, both Chelsea supporters. It also emerged that Bob Gavron, a printing entrepreneur, had donated £500,000, arguing that the Conservatives were no longer the automatic party of business; an observation that has been predicted in previous research.^{ix} Other individuals have also made contributions of over £5,000 (the figure set by Labour to trigger declaration by the party). These have included the publisher, Paul Hamlyn, who has contributed to Labour in the past, and Philip Jeffrey, former owner of the *New Statesman*. Tony Blair was also the recipient of contributions for his leadership campaign in 1994 from Barry Cox, Melvyn Bragg and Greg Dyke, all associated with London Weekend Television, as well as from David Sainsbury of the supermarket chain, who had provided substantial personal funding for the SDP in the 1980s.

Labour has also been partially successful in recruiting corporate financial support. The media group, Pearson contributed £25,000 (also donated to the Conservatives) and the sugar producer Tate & Lyle reduced its contribution to the Conservative Party and made a donation to Labour, significant because Tate & Lyle has had a long history of opposition to Labour every since the party floated the idea of nationalising the sugar industry in 1949. All of these donations were revealed by the Labour Party under its ruling that donations above £5,000 should be declared (though in the annual report no figures are given). However, it also emerged that Labour has received donations through routes as circuitous as the Conservatives, it being claimed that it uses the Industrial Research Trust to fund research projects by the leadership. It was to this organisation that the Caparo Group reportedly donated £47,000, which was not disclosed under the party's normal policy, and it emerged that the Caparo Group had previously donated £130,000. The Industrial Research Trust was also reported to have been supported by 20 or 30 individuals (*Observer*, 8/9/96).

Despite Labour's success in attracting these new sources of income, it has nevertheless been compelled to revise its position on accepting donations of such magnitude. The shadow Chancellor, Gordon Brown, argued in 1994 that large corporate donations to political parties were 'against the interests of democracy' (*Guardian*, 22/8/94). Yet, whilst the corporate donations that Labour has received are smaller than many of those received by the Conservatives, the donations from the Political Animal Lobby, Matthew Harding and Bob Gavron are not. Moreover, if one is critical of the democratic impact of donations of this magnitude, it is difficult to see why one should differentiate between the sources of such payments, institutional or individual, even if they are made public.

These donations have occurred against a backdrop of some uncertainty about the future role of trade union involvement in the Labour Party. Unions continue to contribute more than half of Labour's central income (1995 - 54.2%), though the trend appears to be for this proportion to be in decline, even allowing for fluctuations during the electoral cycle.^x

Nevertheless, the fundraising and organisational developments in the Labour Party have meant that the role of the unions has come under increasing scrutiny. Ironically, this has occurred at a time when unions are seemingly more popular than in the past. An August 1996 NOP poll found that many saw a positive role for unions and felt that government reforms had gone too far. That said, in another poll only 43% of Labour supporters wanted the current payment and voting rights arrangements for the unions to continue, whilst 23% thought that the whole arrangement should end, a similar number willing to continue the financial but not the organisational relationship. This mirrors concerns amongst party members that unions had too much power in the party and that the block vote brought the party conference into disrepute.^{xi} Labour leaders, however, would presumably be unwilling to sever financial ties with the unions unless comprehensive state funding is introduced, since voluntary donations by their very nature lack reliability and moreover tend to cycle around general elections. Since parties need to operate on a day-to-day basis as well as campaign in other elections, any move to end a stable source of finance without adequate replacement would be unwise. Put simply, the Labour Party cannot afford to lose this support, despite its current success in securing substantial forms of income from elsewhere.

The problem of voluntary donations

Overall, the question of voluntary donations raises both normative and practical concerns. From a normative perspective, an initial consideration is whether recipients should declare the identity of contributors. The reasons advanced for this 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 normative counter-argument (according to the Home

Affairs Committee) is that donations are a private matter for individuals and that the interest of 'inquisitive journalists, political opponents or even the state' is not legitimate. Moreover, since individual companies are bound by the Companies Act to declare any political donations in their annual report, parties have no need to replicate this information.

On a practical level there are also objections. First, whether there ought to be a threshold beyond which donations should be declared. From a normative perspective, the case for privacy when contributing a sum of say £20 is commonly accepted, though for larger donations there is arguably a case for disclosure. The practical objection to this 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.

The other practical objection is whether declaration could be enforced. Certainly, comparative evidence shows that parties and their contributors have been willing and able to contravene regulations such as these.^{xii} Nevertheless, whilst the prospects of enforceability must be considered in any regulation, it seems a peculiar premise to assume that political parties, entrusted with so much by citizens, will inevitably circumvent legislation. It may be that attempts to regulate such matters elsewhere have simply been poorly conceived. The failure of badly drafted legislation in other democracies need not deter any potential regulation in the United Kingdom.

Despite these arguments, the Select Committee on Home Affairs report rejected the declaration of donors. Both the Labour Party and the Liberal Democrats supported the idea, but as yet only the former has put its policy into practice, declaring all donations over £5,000. Whilst this move may be considered welcome, further normative consideration emerges as to whether declaration is sufficient. There may be democratic concerns where a party receives a considerable proportion of its income from one source. The amounts that Labour secures from individual trade unions has long been public knowledge, rather easier to obtain than information regarding individual company donations, yet concerns have remained about the amounts that have been provided by the larger unions. Similarly, though the Labour Party has declared that the Political Animal Lobby has contributed £1 million, thus satisfying both transparency and any perceived public 'right to know', public confidence may not be reassured by the fact that this one source provided 6.6% of the party's total central income figure in 1995 and that three sources (PAL, Harding and Gavron) provided 16.6% (calculated against a total of £15 million).

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. The normative counter-argument for these claims is that individuals and groups have a democratic right to support any legitimate political cause to the extent of their own choice. Moreover, on a practical note, problems of enforcement arise. Once again, however, one must consider whether it is a reasonable premise to expect political parties to disobey regulations. That said,

recommendations to limit the size of contributions were rejected by the Home Affairs Committee.

Finally, the question of donations from abroad has continued and especially in relation to these one may question whether declaration is sufficient. All three main parties have received some contributions from abroad, though those received by the Conservatives have been considerably larger. Democratic considerations arise. Those that view the practice as acceptable argue that any citizen or business with legitimate interest in the political future of the country should be able to make a contribution; this being particularly relevant in dependencies like Hong Kong or companies operating in the Single European Market. The counter-argument is that economic interests do not bestow the rights of citizenship and that whilst trade does cross national boundaries, such things as the provision of welfare services to citizens do not.

Current trends in voluntary donations give rise to other practical concerns. Whilst new forms of income are welcomed by political parties, they remain underfunded. Running a party is an expensive business, and it is clear that none of the parties can maintain organisations at an acceptable level. It is quite remarkable that the most successful party (the Conservatives) falls into such deep financial debt. Although the parties do depend entirely on voluntary support, the assistance given by the state is largely directed at elections. The fact that party activity needs to be maintained beyond any electoral cycle suggests that such subsidies are insufficient.^{xiii} The Home Affairs Committee did not endorse increased state funding nor any substantive change in the current arrangements but since state funding is both Labour and Liberal Democrat policy, a change in government may put the matter under review again. The main point about voluntary funding, however, is that it is unreliable. Donations can be withdrawn as easily as they begin, though regular donations can become a custom^{xiv}. Parties would be well advised not to rely too heavily upon large donations, especially from individuals. In an organisation, at least, a collective commitment can emerge

which may help ensure continuing financial support for a party, though it appears that key personnel are an important influence upon continuing institutional support.^{xv} Obviously, this becomes accentuated with individual donations: whilst partisan identification can easily spread throughout a family, the willingness to contribute money may not.

Conclusions

The developments in party donations and finance in general suggest that parties' financial fortunes may be linked to their political ones. Thus the Conservative Party appears to be seeing the erosion of some of its traditional fund-raising community. It continues to be resourced partly by companies and often by wealthy individuals. However, whilst corporate donations have declined before, they have rarely found their way into Labour's coffers. To be sure, the Conservatives are still the largest recipient of corporate donations, but some donors are now also funding Labour, a situation that would have been unlikely ten years ago. This is bad news for the Conservatives, since not only are their political opponents benefiting, but it spells potential danger for their existing finances. The Conservatives have benefited in the past from negative corporate images of Labour.^{xvi} Now that prominent companies are happy to assist Labour, one wonders for how long the Conservatives will be able to benefit from Labour's poor reputation in parts of the business world. The same is also true to an extent for individual donations. Again, whilst Labour does not generally receive donations of the same magnitude as the Conservatives, the fact that some are willing to contribute large amounts has implications for those that have supported the Conservatives because of their antipathy to Labour. All this may change. On the one hand, should Labour become the government and experience difficulties, new found support may ebb and even move to the Conservatives. On the other hand, if Labour is again denied power, then donors may see little point in supporting a party which appears unable to win. For these reasons, Labour would perhaps be unwise to rely too much on voluntary donations and reduce the financial input of more regular sources of income. There are also democratic concerns linked to these practical considerations. It is worth considering whether parties as the principal agents of representative democracy should be so heavily funded (and sometimes effectively bailed out) by the apparent philanthropy of particular individuals. The case for more comprehensive state funding, based upon the need to finance parties adequately, arguably becomes more pressing

with each new development in party finance.

- i. J. Fisher, 'Political Donations to the Conservative Party', *Parliamentary Affairs*, January 1994.
- ii. For background generally, M. Pinto-Duschinsky, *British Political Finance 1830-1980* (American Enterprise Institute, 1981).
- iii. J. Fisher, 'Party Finance' in P. Norton (ed), *The Conservative Party* (Prentice Hall, 1996).
- iv. Fisher, 'Party Finance'.
- v. J. Fisher, 'The Institutional Funding of British Political Parties' in Broughton et al (eds) *British Elections and Parties Yearbook 1994* (Frank Cass, 1995); Fisher, 'Party Finance'
- vi. J. Fisher, 'Why Do Companies Make Donations to Political Parties?', *Political Studies*, December 1994.
- vii. K. Ewing, *Money, Politics & Law* (Clarendon Press, 1992), p.98.
- viii. Fisher, 'Political Donations to the Conservative Party', loc. cit.
- ix. Fisher, 'Why Do Companies Make Donations to Political Parties?' loc. cit.
- x. J. Fisher, *British Political Parties* (Prentice Hall, 1996), pp. 78-80.
- xi. P. Seyd and P. Whitely, *Labour's Grass Roots* (Clarendon Press, 1992), p.51.
- xii. See H.E. Alexander (ed), *Comparative Political Finance in the 1980s* (Cambridge University Press, 1989); A.B. Gunlicks (ed), *Campaign and Party Finance in North America and Western Europe* (Westview Press, 1993); M. Wiberg (ed), *The Public Purse and Political Parties* (Finnish Political Science Association, 1991).
- xiii. Fisher, *British Political Parties*

- xiv. Fisher, 'Why Do Companies Make Donations to Political Parties?' loc. cit.; Fisher in Broughton et al (eds) op. cit.
- xv. *ibid.*
- xvi. Fisher, 'Why Do Companies Make Donations to Political Parties?' loc. cit.