

State funding for parties in a fact-free zone

Sunday Times
Michael Pinto-Duschinsky
© 2006 Sunday Times
December 12, 2006

We are rushing towards a constitutional change based on reports that don't hold water, says Michael Pinto-Duschinsky

Their last Christmas in office will be overshadowed for some of Tony Blair's closest aides and backers by the inquiries of Yates of the Yard into the alleged sale of peerages to Labour benefactors. Senior Tories will also be worried. John Yates will be celebrating his promotion to assistant commissioner of the Metropolitan police as he prepares to carry out his final interviews before handing his dossier to the Crown Prosecution Service.

In the meantime Sir Hayden Phillips, the former Whitehall mandarin, is not waiting for Yates's evidence before proposing in his party funding review a series of reforms as radical as those enacted as recently as 2000. After two interim statements his final report is to be published in late January or early February.

The lessons of the "loans for lordships" affair are clear to him already: state funding is the best substitute for large private donations. The only problems -as he sees the matter -are tactical: how to deal with public hostility to more state cash for the parties and how to persuade the parties to agree on a formula.

The Commons constitutional affairs committee has been faster off the mark than Phillips. Last week it published a cross-party proposal on the lines that he seems likely to propose.

The most worrying feature of the committee's report on party funding is its uncertain grasp of basic facts. The committee's rush to publish without research seems to reflect an assumption that constitutional arrangements can be changed with as much care and as frequently as socks.

The committee is not wholly to blame for the veil of ignorance behind which reforms of party funding are being proposed. It rightly castigates the Electoral Commission for its failure to collect and analyse data on party finances. And its inaccuracies are no worse than those in Phillips's interim report which -among other errors - failed to distinguish between central and local party accounts.

The MPs on the committee are understandably concerned that the main British

parties are so heavily dependent on very large donations from a few rich individuals. But they base their recommendations for change on two unproven assumptions. First, their report repeats the common claim that there has been an explosion in the costs of election campaigns. Second, it gives two wildly differing estimates of the amount of state funding that parties already receive.

That there has been rampant growth in the costs of party politics has been repeated like a mantra. But the evidence is inconclusive. The Electoral Commission has admitted in a recent reply to a Freedom of Information Act request that it has failed to collect comprehensive data about party expenditures in each of the past three parliamentary cycles.

According to the committee, the published accounts of the party headquarters "show escalating campaign costs at the national level". For the period since 1997 they show the opposite. In 1997, the last general election before the imposition of national spending limits, the combined central cost of the Tory and Labour campaigns was Pounds 66m (at 2005 values); in the 2005 election the equivalent figure was Pounds 35.8m. Far from escalating, campaign spending by the two main party headquarters has nearly halved.

If changes in average earnings, rather than retail prices, are used as a measure of inflation the drop in national electioneering costs between 1997 and 2005 has been even greater. Campaign costs incurred by parliamentary candidates of all parties fell by

about 10% between 1997 and 2005 when adjusted for changes in the retail price index.

By contrast the routine costs of the Tory and Labour headquarters grew substantially between the 1993 and 1997 parliamentary cycle and during 2002-5. The routine expenditure of local party organisations almost certainly fell during this time, but statistics have not been collected.

In short, the situation is complex and uncertain; there has been insufficient research to establish recent trends in British political finance. The Electoral Commission, Phillips's party funding review and the constitutional affairs committee have all been prepared to make judgments without doing their homework.

These same three bodies have all but disregarded the huge increases in indirect state funding of politics. The most thorough work on the subject has been published by Andrew Tyrie, the Conservative MP for Chichester, who is a member of the Commons'committee. Its report mentions in passing Tyrie's conclusion that 40% of party funding in a non-election year and 60% in an election year is already provided by the British taxpayer.

The report curiously omits to spell out Tyrie's statistics that state funding of parties amounts to Pounds 34m in each non-election year and Pounds 135m in a general election year. Instead the report cites the version of the Department for Constitutional Affairs, according to which existing state aid amounts to about Pounds 8m a year.

Before considering whether there is a case, as the committee recommends, for a "substantial increase" in state aid, it surely ought to have investigated which of these widely divergent versions is to be believed.

The debates about reform of party funding are damaged not only by a blindness to facts but also by a lack of realism about the effectiveness of regulations. The committee recognises that tighter regulation of donations to parties could encourage rich donors to redirect their money to lobbying organisations linked

with political parties but legally independent from them. It therefore advocates what it calls a "robust regulatory regime" for political lobbies as well as for parties. This is much easier said than done. Foreign experience shows it is hard to control party-connected lobbies.

The problem is illustrated by the example of a lobbying organisation whose work is constantly cited by the committee. The New Politics Network think tank has been active in campaigning for changes in party funding rules. But who funds the New Politics Network? It turns out that its base funding comes from a property company worth about Pounds 2m called Rodell Properties. Rodell was set up as a receptacle of the leftover funds of the former Communist Party of Great Britain. The point about this generous funding source is that it has attracted little public attention and scrutiny despite the fact that it is acknowledged in an obscure part of the New Politics Network's website.

Had Pounds 2m of communist money been paid directly to the Liberal Democrats or to new Labour there would have been an almighty fuss. If the result of imposing a straitjacket on donations to parties is to strengthen relatively unaccountable lobbying groups, which operate as "offshore islands" of parties, this may not be in the public interest.

Rules concerning the funding of parties and elections are a key feature of any democratic system. Changes are sometimes needed. But they should be carefully crafted and properly implemented. All too often new political finance laws turn out to have loopholes and unanticipated flaws. The problem with the spate of reports and proposals is that they have been drawn up with little research or consideration of the consequences.

If the committee's report was so ungrounded, why did it command all-party support? It was partly because political parties are characteristically tempted by the prospect of extra state cash. Partly it was because Conservative and Labour members had a different interpretation of the agreed formula for a cap on contributions. To the Tories it involves a commitment by Labour to agree to end the system of political payments by trade

unions. To Labour it does nothing of the sort. As it sees it, the agreement commits the Tories to cap contributions from rich individuals while leaving the union payments system intact.
