A Reform Architecture for Political Party Funding in Aotearoa New Zealand

Abstract

We recently published a comprehensive report on political party funding in Aotearoa New Zealand (Rashbrooke and Marriott, 2022). This article documents some of the issues we discovered in the process of writing that report and some of the solutions we propose to address these issues. We recommend stronger donation regulation: capping annual donations at $15,000 and donor identification for donations above $1,500. We also recommend increased state funding: for approximately $2 per voter per annum, ‘big money’ can be eliminated from the political finance arena. This improves transparency and – crucially – can significantly reduce the perception of influence from large donations.

Keywords  political party funding, donation reform, state funding, tax credits, democracy vouchers

In Aotearoa New Zealand political parties receive funds from a variety of public and private sources. To carry out their parliamentary duties, MPs get state funding for their operational activity, such as IT support or communications with constituents. This funding goes to the parliamentary wing and is for ‘parliamentary’ work, in the sense of carrying out parliamentary duties, rather than for ‘electioneering’, in the sense of appealing for votes. The other principal source of state funding is the election broadcasting allocation, in which the Electoral Commission distributes funds that the various political parties can use for campaign advertising. This money is explicitly for electioneering and goes to the non-parliamentary wing.

While parties’ parliamentary work and election advertising is state funded, other activities are not. Parties receive no public subsidies for their general, day-to-day operations – in particular, for researching, debating and developing policies, and communicating them to the electorate (except to the extent that this happens through election broadcasting and in Parliament). Parties also need funds for campaigning. Running campaigns has become increasingly professionalised and, consequently, more expensive. Costs of campaigning are increasing at a time when party memberships are declining, which further reduces resources available to contribute to campaigning activity.

To carry out these functions, parties must raise their own funds. These can come from members’ fees, other fundraising, such as selling merchandise, and, perhaps their most important sources of revenue, political donations.1

The problems

Concerns about donations to political parties emanate from perceived or actual opportunity for corruption. This corruption may be overt, or it may be what academic Michael Johnston (2005) describes as the most common form of corruption in liberal democracies: trading in influence. In some instances, trading in influence may be criminal, but it also includes many currently legal practices (Gluck and Macaulay, 2017). A further concern is that only some actors – the wealthy – have the opportunity to engage in this behaviour, either directly through donations, or indirectly such as through funding lobbying or third-party campaigning efforts.

Most countries have a mix of public (state) and private funding (donations). But, as political donations create clear opportunities for undue influence to be exerted, developed countries have started to introduce more rigorous regulation to minimise the potential for money to influence, or be perceived to influence, political decisions.

When donations form most of a political party’s resources, this may create an imbalance: some parties are more successful at fundraising than others. This creates an uneven playing field and violates the principle that elections should be determined by who has the best ideas, rather than who has the most money to communicate them.

Our report documents multiple examples of donations and other payments to parties resulting in access to politicians. Separation of MPs and party leaders from fundraising did not exist in any meaningful manner. Not only does this open the door for donations to exert influence; it also creates a strong perception that influence exists, which can undermine people’s trust in democracy.

In collecting data for our research, we heard from donors to political parties that many expected to have access to politicians as a result of the donation. Similar access does not appear to be available to those who do not make large donations. While the link between access and influence is often opaque, we note below the research that finds a strong relationship between government policy and the preferences of large donors.

Donors who donate amounts between $1,500 and $5,000 must be known to the party, but do not need to be disclosed to the public. The names and addresses of donors who contribute $20,000 and above must be notified to the Electoral Commission within ten days of receipt of the donation (Electoral Act 1993, s210C(6)). The Electoral Commission will generally make this information available to the public within a short time, although no specific time frame is legislated for this public disclosure. The recent change to quickly disclose these larger donations only in general election years dilutes the transparency that is important for large donations, as these have the potential to rapidly influence politics, and thus the greater need for the public to be able to equally rapidly scrutinise them.4

What we know about donations

It is well established that large donations from individuals or businesses ‘pose a risk to democracy because they may allow the giver to obtain undue influence over the political process’ (Leong and Hazelton, 2017, p.190). In Australia, for instance, the two main political parties (or groupings of parties) rely on a small number of major donors: in 2020–21, 39% and 57% of the Coalition’s and Labor’s declared donations respectively came from just five donors (different ones for each party). On this basis, Grattan Institute researchers Griffiths and Emslie (2022) claim that large donors ‘can achieve significant access and influence’.

While it is well established that money can buy access (Langbein, 1986), it is more difficult to demonstrate that donations translate into influence. However, access is generally a precondition for exerting influence over public policy. Depending on the parameters of the research, most studies find some impact of private money on regulatory outcomes (de Figueiredo Jr and Edwards, 2007; Claessens, Feijen and Griffiths and Emslie, 2022) claim that large donors ‘can achieve significant access and influence’.

We document a long list of incidents involving political donations, including suggestions of favours from the donations, concealment of identities, and donation splitting. We were told that it was relatively easy to circumvent the overseas donation cap of $50: individuals can transfer funds to someone in New Zealand who will donate on their behalf and there is no tracing through of the funds that would detect this. Of particular concern is that these events are not detected by any regulatory mechanism; instead, whistleblowers or the media highlight these activities.

Several actions have been adopted by other countries to limit actual or perceived corruption. Examples include: restricting donations to voters (i.e., natural persons); limiting the total amount that a donor can give; or disclosing donors’ names at a relatively low threshold (e.g., $1,500).2 However, in comparison with many other countries, New Zealand has a weak regulatory framework for political donation: there are few restrictions on who can donate (overseas donors); there are no limits on maximum donation amounts; and the threshold for disclosure is at $5,000.3
voice in politics. They permit corporations, interest groups, and the wealthy to exert a great deal of influence over what the government does. And they allow donors and highly ideological political activists to dominate the parties’ nominations of candidates. (Page and Gilens, 2020, p.4)

Other examples can be seen in, for instance, the connections between party donations in the UK and appointments to the House of Lords, a law-making body (Gluck and Macaulay, 2017, p.51).

As well as the advantages potentially gained by donors, donations may favour one party over another. Literature has some contrasting results, but recent research supports the claim that greater fundraising has a positive impact on electoral success (Samuels, 2001; Griffiths, Wood and Chen, 2020; Schuster, 2020; Cagé and Dewitte, 2021; Bekkouche, Cagé and Dewitte, 2022). In September 2022, the Economist surveyed recent US data showing that better-than-average fundraising is a strong predictor of better-than-average electoral success, concluding: ‘Money still matters.’

When it comes to donations regulation in New Zealand, a 2021 poll of 1,000 New Zealanders, conducted for the Institute for Governance and Policy Studies (IGPS), showed that about two-thirds backed a regime in which the maximum amount that could be donated was $10,000 and the donor’s identity should be declared if they gave over $1,000 (69.3% and 64.4% support respectively). A substantial minority – about four in ten – supported a still tougher system in which the maximum amount was $1,000 and donor identity was declared once they gave more than $100 (43.7% and 39.5% respectively). Just 17.6% of respondents supported the current system of unlimited donations (Chapple, Duran and Prickett, 2021, pp.7–9).

The responses to a similar question in our survey are shown in Figure 1. We found higher numbers who preferred no cap (33%, compared to 18% in the IGPS survey) and lower numbers who supported a tighter limit (43% thought it should be under $15,000, compared to 69% who thought it should be under $10,000 in the IGPS study). Nonetheless, even our survey indicates that unlimited donations are not the public’s preferred option, as a majority of those with a fixed opinion supported a cap of under $15,000.

Our research report is informed by data collected from focus groups, a survey and over 35 interviews. There was strong agreement on the need for transparency from all participants. Figure 2 shows that 74% of survey respondents believed that the public has a right to know where political parties and candidates get their funding, while 16% did not agree that this should be disclosed.

Other countries use a range of approaches to political party funding. These include election expense reimbursement; tagged funding (e.g., for policy development); per-vote funding, usually weighted so that the first tranche of votes provides greater funding support; per-member funding; matching funding; tax credits; and democracy vouchers. Ideally, the method selected will encourage political parties to engage with the public; encourage the public to engage with political parties; allow citizens either direct or indirect control over the funding allocation; provide some certainty and predictability of cash flows; and allow participation for those who have limited financial resources.

We compared New Zealand’s approach to donations with those of 32 other OECD countries. This analysis showed that most countries require disclosure of a donor’s identity if they donate over $5,000. However, nine countries go further and mandate disclosure for donors giving under $1,500, while three countries require all identities to be disclosed. Only five require disclosure above $15,000 and seven have no disclosure provisions.

Most countries have maximum annual donation amounts. Seven countries have very restrictive caps of under $5,000, and a further four of under $15,000. The caps can be as low as $850 (Belgium) or $2,000 (Canada). There are a further handful of countries with limits that are either between $15,000 and $50,000, between $50,000 and $100,000, or over $100,000.
Only one-third of countries (11), including New Zealand, allow unlimited donations. Only two countries provide no state funding to political parties. Often the approach adopted was designed to provide greater benefit to smaller parties, but usually with a minimum requirement for entitlement to any funds, such as gaining 1–2% of votes at the last election. New Zealand is towards the weaker regulated end of the spectrum.

We draw on Canada’s experience of political party funding as an example. Canada has strong regulation, requiring, for example, disclosure of all donations above $233 and a maximum donation limit of approximately $2,000 per person per year. Only natural persons can donate and there are limits on election spending. However, state funding is provided to ensure political parties have sufficient funds. The primary funding comes from tax credits that effectively reimburse donors for donations up to $1,640. A donation of $1,640 would attract a tax credit of $830 (approximately 50%). Smaller donations attract a higher proportion of tax credits, as shown in Table 1. In addition, every party that gets over 2% in a general election has half their election expenses reimbursed by the state.

We calculated the total amount of donations and donors for the five largest political parties in Canada for 2021 and concluded that tougher regulation of donations is not incompatible with parties being well-funded. Average donations ranged from $213 for Bloc Québécois, which attracted 7.6% of votes in the 2021 election, to $325 for the Conservative Party of Canada, which received 33.7% of the votes. Note that numbers of donors are high: for the Conservative Party there were over 95,000 donors in 2021, leading to total donations of over $31 million. We also reviewed Canadian party funding across a four-year election cycle (2016–19) and again saw a clear trend of parties raising large sums by receiving many small donations (e.g., the Conservative Party received over $107 million from 405,274 donations averaging $266, and the Green Party received nearly $18 million from 85,625 donations averaging $204). Donations typically comprised over 80% of Canadian political parties’ revenue in non-election years and over 50% in election years (election years are lower as parties again saw a clear trend of parties raising large sums by receiving many small donations). We asked the survey respondents about three possible state funding options: per-vote funding, tax credits and democracy vouchers. Of these, tax credits and democracy vouchers were the most attractive to respondents. We provided brief descriptions of how the options worked, along with advantages and disadvantages. Figures 4 and 5 show the responses for tax credits and democracy vouchers.

## Table 1: Canadian tax credit system (NZ$)

<table>
<thead>
<tr>
<th>Individual donation</th>
<th>Tax credit</th>
<th>Maximum tax credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0–$500</td>
<td>75%</td>
<td>$375</td>
</tr>
<tr>
<td>$500–$950</td>
<td>50%</td>
<td>$225</td>
</tr>
<tr>
<td>$950–$1,640</td>
<td>33.3%</td>
<td>$230</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$830 (for a donation of $1,640)</td>
</tr>
</tbody>
</table>

## Figure 3: What is the right balance for where political parties should get their money?

Only donations from supporters
Mostly donations from supporters with some state funding
Some state funding and some from donations
Mostly state funding with some donations from supporters
Only state funded
Unsure

Arguments against increased state funding include whether the spending is a good use of taxpayer funds, and the potential decrease in incentives for parties to engage with members. Figure 3 shows support for state funding from survey respondents, with 58% supporting some level of state funding.

We asked the survey respondents about three possible state funding options: per-vote funding, tax credits and democracy vouchers. Of these, tax credits and democracy vouchers were the most attractive to respondents. We provided brief descriptions of how the options worked, along with advantages and disadvantages. Figures 4 and 5 show the responses for tax credits and democracy vouchers.
progressive, so that smaller donations have a proportionately larger subsidy component. Tax credits was the most appealing option to respondents: 45% indicated they would support it (note the numbers do not sum correctly due to rounding), with 23% in opposition.

Democracy vouchers are a recent innovation internationally and respondents were less likely to be familiar with them. Nonetheless, as shown in Figure 5, 40% supported and 32% opposed this option. We note that for both options there are large numbers of people who were undecided. This is possibly a reflection of the complexity of the topic. This highlights the need for clear, straightforward communication to the public regarding any proposed funding changes.

**Recommendations**

Our recommendations include reducing the threshold for disclosing donors' identities to $1,500; capping total annual donation amounts at $15,000; and the introduction of comprehensive state funding, incorporating tax credits, lump sum payments, and democracy vouchers that would allow citizens to directly allocate party funding themselves. Combined with other policies, these measures would ensure a healthy funding base for political parties, while encouraging a wide range of New Zealanders to each provide small amounts to support vibrant political competition. Each of these components is discussed in more detail below.

There is some judgement required in establishing a threshold for disclosing donor identity. Factors to consider include setting a level somewhere above the amount that a committed but not especially wealthy party member could reasonably give. This would suggest around $20 a week, or $1,000 a year. There would also be justification for setting the threshold slightly higher, at $1,500. The slightly higher value aligns with the current threshold at which donations to candidates must be declared, removing the loophole through which donations destined for candidates can effectively be anonymised by routing them through the party. It would be consistent with the threshold set by roughly one-third of the OECD countries surveyed. It is also approximately the amount typically paid to attend the kinds of fundraising events where access to MPs and sometimes ministers is available. Crucially, a $1,500 threshold would be likely to deter most attempts at donation splitting. Accordingly, we recommend that the name and address of all donors giving over $1,500 in a 12-month period be publicly disclosed in parties' annual donations returns.

Two-thirds of OECD countries cap donations at some level, rather than relying on transparency alone. The evidence we collected in the research and documented in the report, concerning the access and potential influence stemming from large donations, and the growing funding imbalance between political parties, justifies a limit on total annual donations. It is relevant that somewhere between half and two-thirds of New Zealanders, depending on the survey, support a donation cap of $10,000–15,000. Moreover, one-third of the OECD countries surveyed have a cap at $15,000 or lower. The $15,000 figure is similar to that recommended by reviews in other jurisdictions. For example, the Committee on Standards in Public Life in the UK concluded: 'We have come to the conclusion that the only safe way to remove big money from party funding is to put a cap on donations, set at £10,000’ (approximately $20,000) (Committee on Standards in Public Life, 2011, p.4). Such a figure would also help achieve the right combination of transparency and limits. We therefore recommend that no individual may give a party more than $15,000 in a 12-month period.

We recommend state funding with three separate components: tax credits, a lump sum payment and democracy vouchers. Tax credits have the potential to encourage large numbers of small donations, as seen in Canada. This method would provide a reasonably reliable flow of funds to political parties, is based on a proven model, and would enhance citizen engagement and control.

Democracy vouchers are sent directly to individuals, allowing them to allocate state funds to the party of their choice. This is the most democratic of all state-funding options, but also the most novel. Our proposal is to repurpose the current broadcasting allowance (of approximately $4 million) as a fund that parties can use for any campaigning purpose, and then allow citizens to allocate it using the vouchers.

Finally, we recommend that, as in some other jurisdictions, parties receive a lump sum payment. This would help defray costs imposed upon them by the state – for instance, the fees they pay for compulsory audits of donation returns – and, for newly launched parties, encourage them to overcome the significant obstacles they face, including incumbency bias and the difficulties of getting over the 5% MMP threshold. We recommend that these payments go to all parties that attract votes above an eligibility threshold, such as polling above 2% at the previous election or in several consecutive opinion polls, or, alternatively, representation in Parliament. Ensuring small parties received support...
was a strong theme in our focus groups. Incorporating a lump sum payment into the overall funding mechanism helps achieve this.

### What will parties receive?

Detailed design is included in the main report. Using available data and cross-country comparisons, our estimates suggest that New Zealand’s largest parties might expect to receive annual donations in the order of $2.5–3.5 million, and the smaller parties sums in the order of several hundred thousand dollars from donations. The National Party could expect to receive upwards of $3 million a year. This contrasts with fears sometimes expressed by National Party spokespersons that political finance reform would unduly disadvantage their party.

Setting a maximum annual donation limit of $15,000, and a disclosure requirement for donations between $1,500 and $15,000, will reduce total amounts of private donations, both because of the upper limit and because some donors will no longer donate if their donation is attributed to them. However, not all would be put off by disclosure, given we already have named donors. Parties would retain many of their current other funding or fundraising options, such as selling merchandise, Parliamentary Services funding, or the tithing that is practised by the Green Party.

We propose that the annual lump sum payment to all eligible parties (e.g., those polling over 2% at the last election or in several consecutive opinion polls, or that are represented in Parliament) should be put off by disclosure, given we already have named donors. Parties would retain many of their current other funding or fundraising options, such as selling merchandise, Parliamentary Services funding, or the tithing that is practised by the Green Party.

We propose that the annual lump sum payment to all eligible parties (e.g., those polling over 2% at the last election or in several consecutive opinion polls, or that are represented in Parliament) should be $100,000. This figure is informed partly by testimony that this is the minimum cost to run a small party hoping to get into Parliament, and partly by testimony about the substantial costs imposed on all parties to meet Electoral Act donation reporting requirements.

The final element of our costings concerns our proposal for democracy vouchers. Taking inspiration from their use in Seattle as an election-year form of funding, we propose that the broadcasting allocation, currently the principal campaign-related form of state funding in New Zealand, is repurposed to fund this. This would allow the approximately $4 million to be used for any campaigning purpose. Funds would be distributed as democracy vouchers at the start of each election year. Based on the Seattle experience, we would expect that only a small proportion of voters would allocate them—e.g., around 10%. With roughly 3.4 million voters, this would result in the vouchers having a value of approximately $12 each. The allocation would be capped at $4 million; therefore there would be no concern about overspend. Scaling could be used for any over- or under-allocations beyond the forecast.

### What will it cost?

More detailed costings are included in the main report. By way of public expenditure, we estimate that the cost of the tax credit system would be approximately $5.5–7 million, with the upper limit representing likely higher donations in an election year. Depending on the number of eligible parties, the lump sum payment would add around $600,000 a year to the total cost of state funding. There is no additional cost for the democracy voucher option, as this repurposes the existing state funding attached to the broadcast allowance. Therefore, the total cost of our proposal is approximately $2 per voter per annum.

### Conclusion

Our research highlights many problems with the current system of political party funding, alongside strong support for change to the system. Some of the policy changes we propose include increased state funding, greater transparency of donors and donation amounts, and placing some limits on large donations. Our full report includes a range of other recommendations, but we highlight these three here as important components of a rigorous political party funding framework. We believe that the state funding options we propose will increase engagement between parties and voters, and reduce the ability for larger donors to have greater access to politicians than those who cannot donate, thereby improving political equality.


