

Money for Something

A report on political party funding
in Aotearoa New Zealand

Executive Summary and Recommendations

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About the authors

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The evidence base

This report, researched and written over the course of 2022, draws on three principal strands of evidence: first, a review of the history of political party funding and attempts to regulate donations in New Zealand; second, an analysis of other countries' donation laws and political party funding arrangements; and third, primary data collected from interviews, focus groups and a survey. Interviews were carried out with over 30 current and former actors in the New Zealand political system. Many of these interviews, which included political donors, party fundraisers and politicians from across the spectrum, were carried out under conditions of anonymity, to allow people to speak more freely. We have followed the usual protocols for using anonymous accounts, including seeking to verify or corroborate points made where possible. We feel that, for all their limitations, such anonymous accounts remain an invaluable insight into the workings of the political system.

Executive Summary

The problem

Democracy relies on equality between citizens. When some people have greater influence on key decisions, or greater access to people who have influence, democracy is undermined.

However, in New Zealand, over several decades, political parties' memberships have waned dramatically, and income and wealth have become more concentrated at the top. Meanwhile the cost of campaigning has risen. All this has made parties ever-more dependent on wealthy donors, leaving the door open for those donors to win favours in return. Our research highlights an accelerating pace of scandals caused by the movement of money between wealthy donors and decision-makers.

In this report we detail:

1. Parties failing to disclose hundreds of thousands of dollars in donations from industries whose fortunes the party could substantially influence;
2. Repeated instances of parties obscuring the sources of their funding, through sham donors, complex corporate structures and other methods;
3. Widespread acknowledgement that the current rules are being circumvented;
4. A sense that the system is "an accident waiting to happen", overly reliant on individuals' ethics rather than enforcement and with too many opportunities to get around rules;
5. Party leaders and MPs getting deeply involved in soliciting donations, heightening the opportunities for undue influence;
6. Donors acknowledging that their donations are to advance a particular cause or their own interests, rather than simply to "support democracy", as is sometimes claimed;
7. A growing volume of corrupt appeals to political parties from would-be donors explicitly seeking favours in return;
8. Envelopes with cash being presented to party leaders at public events;
9. Political parties openly selling access to politicians to large donors;
10. Donors reporting that giving tens of thousands of dollars "makes it easier to get a meeting" with ministers;
11. Donors getting repeated home visits from prime ministers and party leaders, far beyond anything an ordinary voter could expect;
12. MPs intervening in citizenship applications and police investigations on donors' behalf;
13. A long history of scandals that has resulted in just one successful prosecution;
14. Indications that the fear of upsetting donors may circumscribe parties' policies, or at least a perception that this is so;
15. A widespread view that the Electoral Commission is badly under-powered when it comes to detecting donations fraud.

These issues are already significant and, if unchecked, could lead New Zealand to resemble a country like the US, where politics is permeated by money. Before the influence of money becomes entrenched, we should take precautionary action to ensure the integrity of our political system.

New Zealand is increasingly an outlier among developed countries, owing to its weak regulation of political donations. Compared to other nations, New Zealand has relatively little transparency about the sources of parties' funding: most developed countries require donors to disclose their identity once they give over NZ\$5,000 or even \$1,500, but here the threshold is \$15,000. Two-thirds of developed countries place limits on the very large amounts that can be donated to parties: New Zealand has none. Many countries allow donations only from citizens, not companies or unions: New Zealand imposes no such restrictions. In short, a wide range of tools that can enhance transparency and curb undue influence are largely unused in New Zealand.

This situation clearly causes public disquiet. Nearly three-quarters of New Zealanders distrust the current system of funding political parties. Polling presented in this report shows that, of the New Zealanders with definite views, between half and two-thirds want donations capped at \$10,000-15,000. They also seek greater transparency.

However, for all the issues raised by big money in politics, it is not the case that parties should be starved of funds. As New Zealanders, we have a shared interest in political parties being well-funded, so they can develop thoughtful policies and communicate them to the electorate, in a vibrant political contest.

If, however, one party, or one side of politics, raises larger sums of money from big donors, it may be better able to get its message out to voters. Our research demonstrates significant funding imbalances between New Zealand political parties. And the international evidence suggests that more money, all other things being equal, means more votes. This allows wealthy donors an outsized influence over which political messages are most successful.

The solution

Based on evidence collected for this research, we argue that regulations should be designed so that, when political parties are seeking funds, they are encouraged to reconnect with the wider voting public. Party funding should be egalitarian, voter-centric, and generated where possible from a large number of small donations from ordinary New Zealanders, rather than a small number of large donations from the wealthy.

We argue that large donations should be more tightly regulated, to remove opportunities for undue influence, while preserving individuals' freedom to support the party of their choice. We also argue that New Zealand should join its developed-country counterparts and provide greater state funding for parties. This can be done in a way that, as above, fosters a more engaged political democracy and enhances equality of political influence.

Polling carried out for this report shows most New Zealanders accept the idea of at least some state funding. Our modelling suggests the cost would be minimal, at around \$6-8 million per annum. For an annual \$2 per voter, New Zealanders could eliminate big money and its attendant opportunities for undue influence. In its place, a large number of small donations would ensure well-funded parties operated in a transparent system that merited citizens' trust. Parties would be at least as well-funded as before, but their funding would shift significantly from large donors to small.

Our core recommendations are:

1. Donors' identities disclosed when they give over \$1,500;
2. An annual cap on donations at \$15,000;
3. Donations allowed only from eligible voters, not organisations;
4. Stronger powers for the Electoral Commission to pursue donations fraud; and
5. A system of state subsidies for small donations, democracy vouchers to allow voters to allocate state-provided campaign funds, and lump-sum payments to all parties.

These solutions are described in more detail in the next section.

Summary of recommendations

Below are the five key recommendations outlined in chapter 10 of this report. The recommendations must be seen as a whole, each of them reinforcing the other. Implementing one without the others could have negative unintended consequences.

Key Recommendation No. 1: The identity of all donors giving over \$1,500 must be disclosed.

This would strike the right balance between ensuring privacy for donors of relatively small sums and increasing transparency for larger donors. The \$1,500 threshold is chosen because it is approximately the sum that appears to buy access in New Zealand politics, is in line with global best practice, has public legitimacy, and would make donation-splitting (breaking a donation into several parts to disguise the true donor's identity) much more difficult.

Key Recommendation No. 2: No individual may give a party more than \$15,000 in a 12-month period.

Large donations clearly purchase access, on the evidence examined for this report, and may purchase influence. Soliciting large donations places party leaders in compromising situations and leads to an unhealthy familiarity between donors and politicians. It can also bias politics towards the interests of the wealthy as a whole. Accordingly we recommend that donations be limited to \$15,000 per person, per party, per year. This threshold has public legitimacy and preserves the freedom to donate while enhancing political equality.

Key Recommendation No. 3: Only eligible voters can donate.

Voting in elections is a privilege reserved for citizens, and donating – which can profoundly influence the course of those elections – should be likewise. In addition, removing the ability to donate from corporations, trusts and other organisations would greatly enhance transparency and limit the scope of donation-splitting and other circumventions of donation rules.

Key Recommendation No. 4: The Electoral Commission should be given greater powers to detect donations fraud.

Currently, the exposure of donations fraud relies almost solely on whistleblowers, suggesting that cases are going undetected. The Electoral Commission is not currently empowered to detect wrongdoing, lacking many key powers. It should have the power to audit parties and demand to see documents, among other things. The act that it administers, the Electoral Act, should also be strengthened to limit the opportunities for donations fraud.

Key Recommendation No. 5: State funding should be introduced in the form of tax credits and democracy vouchers, plus lump-sum payments to smaller parties.

Since well-resourced political parties, able to train candidates and put forward considered policies, are part of the public good, there is a case for the state to provide modest extra funding to help them carry out their duties. This would also be necessary if the above curbs on donations limited their fundraising ability. Political parties should receive state funding, at a total rate of roughly \$6–8 million a year, through tax credits (reimbursements) provided to people giving up to \$1,500. Democracy vouchers, in which citizens are sent state-funded vouchers to spend on the political party of their choice, would be used to allocate approximately \$4 million of campaign funding (formerly the broadcasting allocation) in election years. In addition, every party registering over 2% of the vote should receive a \$100,000 annual lump sum, to defray costs imposed by the state and encourage a greater diversity of political parties.

Alternative: If democracy vouchers are seen as too experimental, the current broadcasting allocation should be revised and a pilot of democracy vouchers carried out.