

Money for Something

A report on political party funding
in Aotearoa New Zealand

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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.

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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.

Introduction

The intersection of money and politics has long been fraught. Income and wealth represent a form of power, generated and exercised in the economic domain, and its holders may seek to convert it into power in the political domain. Yet this threatens the political equality of citizens that is one of democracy's core principles.¹ In philosophical terms, the logic of the market, where more money buys more goods, is inappropriate to the world of politics, which in theory operates on the basis of one person, one vote.² Every citizen, it is believed, should have an equal opportunity to influence politics; those with more money should not hold greater sway.

To protect this vital equality, societies have constructed various barriers against the influence of money in politics. In New Zealand, this includes prohibitions on paying people for their votes, a practice legal until the 1850s but banned thereafter. Other barriers include laws against most forms of bribery, and restrictions on the gifts and hospitality that ministers can accept.³ These laws, backed by powerful social norms, help ensure the absence of the most naked forms of political corruption seen in other countries, such as cash-stuffed envelopes buying law changes. New Zealand also has various measures to protect the integrity of its public sector. These protections contribute to New Zealand's ranking as the perceived equal-cleanest country in Transparency International's corruption perceptions index.⁴

This system of anti-corruption barriers can be likened to the walls of mediaeval European cities, which protected residents from external threats. The New Zealand city wall, however, has gaps. Despite its prohibition of the crudest kinds of corruption, the country is susceptible to the subtler form of corruption known as trading in influence.⁵ This term covers a range of ways in which individuals can, quite legally, exert undue influence, among them lobbying, forming overly close connections between politicians and vested interests, and biasing political appointments to government-run boards.

Matters are complicated by the fact that money, although often viewed with suspicion, is also an inescapable part of politics. Parliament is expensive to run. The organisations that seek to influence public decisions, including business associations and trade unions, spend money to do so. Above all, political parties face considerable costs, especially when getting their message out to voters.

In developed countries, political parties fund at least some of this work through donations from private individuals and organisations. Since no country has ever attempted to eliminate such donations entirely, and nor could they under the standard assumptions of a liberal democracy, private money cannot be excluded altogether from politics.

Yet political donations create clear opportunities for undue influence to be exerted. Accordingly, developed countries have begun to more carefully scrutinise such donations and to limit the amounts donated. To extend the above metaphor, such measures perform a similar function to the manned gateways of the mediaeval city, allowing entry but only under certain conditions.

1 Rowbottom, J. (2010). *Democracy Distorted: Wealth, Influence and Democratic Politics*. Cambridge University Press.

2 Walzer, M. (1983). *Spheres of justice: A defense of pluralism and equality*. Basic books.

3 Curiously, not all bribes are banned. Gluck, J., & Macaulay, M. (2017). "Trading in influence: a research agenda for New Zealand?". *Policy Quarterly*, 13(2), 49-55.

4 Transparency International. (2021). *2021 Corruption Perceptions Index*. <https://www.transparency.org/en/cpi/2021>.

5 Gluck, J. (2022). *Trading in Influence in New Zealand* [PhD thesis]. Victoria University of Wellington.

Compared to many countries, however, New Zealand does not impose particularly tough regulations on political donations. As it also has exceptionally weak rules on lobbying and related activities, the problems of trading in influence compound. There is no limit on the amounts given as donations, and disclosure of the sources of funds is relatively limited. This weakness has been singled out for attention by multiple reviews, and contributes to an ever-growing – and increasingly concerning – list of scandals.⁶ To quote the Victoria University academic Michael Macaulay: “New Zealand’s global reputation as a high trust/high integrity nation is built on many solid foundations. Political party financing is not one of them.”⁷ It is as if the country had constructed an elaborate defensive wall, but left open a back door through which money could enter relatively unencumbered.

This opening, the problems it causes, and the options for closing it, are the subject of this report. The focus throughout is on donations to political parties operating at the national level, rather than candidates or sub-national politics. The report’s 11 chapters begin with an introduction to political party funding in New Zealand, while chapter two outlines the pragmatic and philosophical issues raised by the presence of money in politics. Chapter three presents what is known about donations, access and influence, while chapter four provides a brief history of political finance in New Zealand. A short fifth chapter outlines donation patterns in New Zealand. The next two chapters present the original data collected for this project: interview material in chapter six, and survey and focus group data in chapter seven. Chapter eight discusses a range of international approaches to funding. Chapter nine summarises the concerns about party finance that were raised by our research. We then present a potential reform architecture in chapter 10 and conclude with a proposed path to reform in chapter 11.

6 Transparency International New Zealand. (2013). *New Zealand National Integrity System Assessment 2013*. <https://www.transparency.org/en/publications/new-zealand-national-integrity-system-assessment-2013>; Transparency International New Zealand. (2018). *New Zealand National Integrity System Assessment 2018*. <https://www.transparency.org/en/publications/new-zealand-national-integrity-system-assessment-2018>; as well as the incidents outlined later in the report.

7 Macaulay, M. (2021). Political Party Funding and the 2020 Election. In S. Levine (ed) *Politics in a Pandemic*. Te Herenga Waka University Press, p.274.

1. The funding of political parties

In New Zealand, political parties can contest elections as long as they have at least 500 current financial members eligible to enrol as electors. An integral part of the political system, parties identify and train candidates for office, bring together coalitions of interests, and develop and test policy ideas.

Most of all, they provide clarity and coherence to voters. A contrast can be drawn with the pre-party era of New Zealand politics, when voters elected a disparate set of individuals to Parliament and waited to see what coalition might emerge based on their policy alignments and personal feelings. The unpredictable nature of the system can be judged from the short duration of many of the ruling coalitions of the era, some lasting as little as a few weeks.⁸ In contrast, modern political parties put forward a reasonably coherent slate of policies that voters can be reasonably sure will be implemented. Based on this evolutionary advantage, parties seem set to endure in the political landscape.⁹

Parties have two wings, parliamentary and non-parliamentary. The former consists of its caucus of MPs and their staff, and is typically headed by the party leader. The latter includes a party's membership and is run by a council or board, headed by a president or general secretary, depending on the party. The two wings can be in tension, especially if a party's members want to take a more radical political line than does the parliamentary wing.

Political funding: a brief overview

Currently, parties receive funds from a variety of public and private sources. To carry out their parliamentary duties, MPs get state funding (also known as public or taxpayer funding) for IT support, communications with constituents, and many other items. This funding goes to the parliamentary wing and is, at least in theory, for 'parliamentary' work, in the sense of making laws and carrying out other parliamentary duties, rather than for 'electioneering', in the sense of appealing for votes. In practice, as is discussed later, this distinction may be impossible to maintain.

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, although in practice the way it is used depends on the balance of power between the wings.

Two things are worth noting here. First, contrary to popular opinion, state funding already exists; indeed on some measures it is in the tens of millions of dollars each year. As the political consensus is strongly in favour of this spending, and at least some of it is necessary if Parliament is to function, the question is whether there should be more or less state funding, not whether it should exist at all.

Second, although parties' parliamentary work and election advertising is state-funded, their other activities are not. They 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 this happens through election broadcasting and in Parliament). This is noteworthy because the contest of ideas, via competing policy proposals, is supposed to lie at the heart of the political system, and might be thought to merit public support. Instead, to carry out these functions, parties must raise their own funds. These can come from members' fees, although political party membership is dwindling. Parties can also raise funds by selling merchandise and other means. Perhaps their most important sources of revenue, however, are political donations.

⁸ Sir Harry Atkinson, for instance, was premier for just a week in 1884, having ended the 13-day reign of his predecessor, Sir Robert Stout.

⁹ New Zealand elections are, of course, also contested by individual candidates in electorate seats, but their role, and funding, is largely out of scope for this report. So too are local elections.

Defining political donations

Donations are not well defined in New Zealand law. The Electoral Act 1993, for instance, describes a party donation as “a donation (whether of money or of the equivalent of money or of goods or services or of a combination of those things) that is made to a party, or to any person or body of persons on behalf of the party who are involved in the administration of the affairs of the party”.¹⁰ This does not greatly clarify matters. Overseas definitions, however, typically stress the element of non-reciprocity: a donation is something given to a political party without (at least in theory) the expectation of anything in return. The New South Wales government, for instance, defines a donation as “a gift made to, or for the benefit of, a political party”.¹¹

The stress on gifting differentiates donations from, say, buying party merchandise, in which the purchaser explicitly gets something in return. The concept of ‘reasonable market value’ helps anchor the distinction. The Green Party could, for instance, sell retro sweaters for \$80 without having to register the sale as a donation, because that is reasonably close to the market value of other sweatshirts. If it ‘sold’ such a sweater for \$8,000, however, the person paying that sum would effectively be making a gift to the party of the difference between \$8,000 and \$80, and that difference (\$7,920) should be declared as a donation. As the Electoral Commission’s 2020 Party Secretary Handbook states: “If your party sells over-valued goods or services (for example, at a fundraising auction), the difference between the reasonable market value and the price the buyer pays is a donation.”¹²

Sometimes, however, parties can blur the line between purchase and donation, whether intentionally or not. A party may, for instance, organise a ‘business conference’ where attendees can, for a fee of \$1,500, mingle with the party’s MPs. If the fees ‘purchase’ something for attendees, and they are in line with those charged for comparable conferences, the fees can – under New Zealand law – be regarded as purchases, and not be recorded as donations. As is discussed below, other countries regulate such issues differently.

Finally, although donations are usually of money, they can also be ‘in-kind’ gifts of goods and services: materials for constructing hoardings, for instance, or expert consultancy services provided for free. Under New Zealand law, free goods or services with a reasonable market value over \$1,500 must be treated as a donation. If a party gets a discount on goods or services worth over \$1,500, the difference between the market value and the price actually paid must be treated as a donation.¹³

Anonymous donations

Donations to political parties are often labelled ‘anonymous’, but it is not always clear what this means. In this report, ‘fully anonymous’ refers to donations made without any identifying information whatsoever; they are thus anonymous not just to the public but also to the party secretary, who formally receives them. Under current law, parties can accept such donations directly only if they are under \$1,500. Fully anonymous donations at that size are not generally thought to pose a problem that would require tighter regulation. If they are between \$1,500 and \$52,563, they must be channelled through the Electoral Commission to ensure genuine anonymity. Otherwise, parties might declare these large donations as anonymous when in fact they knew the donor’s identity. This system is explained in greater detail in later chapters. Fully anonymous donations over \$52,563 are banned.¹⁴

‘Publicly anonymous’ donations, by contrast, come from donors whose identity is known to the political party in question but not disclosed to the wider public. This covers, for instance, donations made between \$1,500 and \$15,000. Such donations could also quite reasonably be described as ‘partially anonymous’ or indeed ‘partially disclosed’.

‘Fully disclosed’ or ‘named’ donations, finally, are those where the identity of the donor is not only known to the political party but is also disclosed publicly. This applies to all donors giving over \$15,000 (see below for further details).

10 Electoral Act 1993, s 207.

11 New South Wales Electoral Commission. (2022). *What is a political donation?* <https://elections.nsw.gov.au/Funding-and-disclosure/Political-donations/What-is-a-political-donation>.

12 Electoral Commission. (n.d.). *Party Secretary Handbook: General Election and Referendums 2020*. Electoral Commission, p.30.

13 Electoral Commission, *Party Secretary Handbook*.

14 This limit applies per three-year term, not per 12 months, as is the case with most other thresholds. Electoral Commission. (n.d). *How to donate*. <https://elections.nz/guidance-and-rules/donations-and-loans/how-to-donate/>.

Recording donations

Unlike many countries, New Zealand does not limit donation amounts. It does, though, require reporting on almost all donations.

Starting at the upper end, the name and address of the largest donors, i.e., those giving over \$30,000, have to be disclosed to the Electoral Commission within 10 days of the donation's being received. Those details are then published on the commission's website. This transparency reflects the potential for large donations to rapidly influence politics, and thus the need for the public to be able to equally rapidly scrutinise them. Parliament is, however, currently considering the Electoral Amendment Bill, which would reduce the threshold from \$30,000 to \$20,000 but apply this disclosure rule only in election years.¹⁵

In addition, every party has to provide an annual return to the commission detailing the previous year's donations, in which the identity of anyone giving over \$15,000 must be publicly disclosed. (Parties' ability to circumvent this law is discussed later.) Such donations are deemed large enough to warrant the publication of the donor's identity, again so that the public can scrutinise them, albeit with less urgency than with donations over \$30,000.

Below that \$15,000 threshold, parties do not have to disclose the *identity* of donors, but they do have to provide aggregate information on the *number* and total *value* of donations, in the following bands: fully anonymous donations below \$1,500; all donations between \$1,500 and \$5,000; and all donations between \$5,000 and \$15,000. Such donations are deemed too small to warrant the publication of the donor's identity; nonetheless, the publication of the aggregate amounts helps the public assess parties' fundraising practices and financial health. The only donations that have not had to be reported are publicly anonymous donations under \$1,500, because of the administrative cost of reporting this information to the commission. However, the Electoral Amendment Bill mentioned above will, if passed, require even these donation amounts to be included in parties' returns.

Time and money

It is sometimes argued that money is not the only important resource available to political parties, and that in-kind contributions like volunteer labour are just as vital. This argument is not without merit; one former party official interviewed for this report argued that another 'm' word, motivation, is more important than money. The two are, however, substantively different resources.

Money is, according to US academic Alexander Heard, something uniquely valuable in politics, "a universal transferable unit infinitely more flexible in its uses than the time, or ideas, or talent, or influence, or controlled votes that also constitute contributions to politics".¹⁶ An expert in energy policy, for instance, will be influential only in that area. A wealthy donor, however, can commission a range of experts in a range of fields, fund marketing campaigns, provide access to media and publicity, and furnish useful contacts. "Where political resources can be bought," British academic Jacob Rowbottom writes, "advantages in the various sources of influence may become concentrated in the hands of those with sufficient spending power, rather than widely dispersed."¹⁷

Time is, in contrast, a finite resource – there are only so many hours in the day – and there is a limit to how much someone's volunteer time can bias an election campaign in one party's favour. Secondly, time tends to be distributed in a much more egalitarian fashion than money. Some people may have more free time (and energy and confidence) to devote to political activities than others, but this is a far smaller imbalance than that between someone who can afford to give a party \$250,000 and someone who can afford to give nothing.

Finally, volunteer labour is a form of active citizenship that is generally regarded as positive, and does not raise the concerns about undue influence often associated with large sums of money. For these and other reasons, democracies are invariably more concerned about imbalances in money than in other resources.

15 New Zealand Parliament. (2022). *Electoral Amendment Bill*. https://www.parliament.nz/en/pb/bills-and-laws/bills-proposed-laws/document/BILL_125504/electoral-amendment-bill.

16 Heard, A. (1960). *The Costs of Democracy*. University of North Carolina Press, p.90.

17 Rowbottom, J. *Democracy Distorted*, p.25.

Forms of regulation

Attempts to regulate the funding of political parties can be broken down into three broad categories: ‘supply-side’ controls that aim to regulate the supply of money into parties (for instance through donation disclosure rules and caps on donation amounts); ‘demand-side’ controls that aim to curb parties’ demand for donations and reduce inequalities of resources (limits on election campaign spending); and public assistance measures that aim to reduce parties’ dependence on private sources of funding (state funding and broadcasting allowances).¹⁸ These three kinds of measures can be complementary.

Supply-side measures

All developed countries regulate the supply of private money into political parties. New Zealand attempts to do this principally via transparency, i.e. the naming of donors who have given over \$15,000. This does not seek to limit the amount given or address potential funding imbalances between parties. Rather, it allows the public to see who is funding political parties and form a judgement as to whether that funding has given the donor undue influence.

New Zealand also limits some kinds of donations, principally those from overseas sources, which in theory are capped at \$50 (although again, this may not be fully effective). Other countries go further, prohibiting donations from various sources – companies with state contracts, for instance – or accepting donations only from enrolled voters (natural rather than legal persons, in technical terms).

Many countries also have caps on the amount donors can give, sometimes as low as a few thousand dollars a year. These are discussed in greater detail in a later chapter. Such provisions are often motivated by a view that transparency is not enough: if it is very likely that large donations will purchase influence, or create a funding imbalance, they should simply be prohibited. New Zealand, however, does not place any limit on donation amounts. The country’s regulation of the flows of money into political parties is, as a consequence, relatively weak.

Demand-side measures

By limiting the amount of money that parties can spend, the state can reduce the demand for private donations, and ensure some measure of equality between parties in terms of their ability to communicate their message. During the three-month period before an election (known technically as the regulated period), New Zealand limits how much political parties can spend on advertising. In 2020, political parties could spend \$1.99 million plus \$28,200 for each electorate they contested, to a maximum of \$3.23 million.¹⁹ However, it is important to note the narrow scope of this limit. Even within the regulated period, the limit applies only to the cost of developing and publishing election ads. Other spending during that time, for instance on campaign consultants, polling, focus groups, candidate travel and office hire, is unlimited. And outside the regulated period, no spending is subject to limits. As is discussed later, some countries regulate a wider range of spending items, and over a longer period.

Public assistance measures

State funding of political parties can, as above, be loosely broken down into two forms: regular or ‘parliamentary’ funding, for parties to carry out parliamentary business, and campaign or ‘electioneering’ funding, for parties to appeal to voters.

In the former category, New Zealand provides funding both to individual MPs and to the leader’s and whips’ offices for each party. This covers MPs’ costs for travel, administration, executive support, set-up of electorate offices, and communications with constituents about their work. The leader’s office funding encompasses a range of expenses, typically including research staff to support or interrogate government decisions, ask or respond to questions in the House, and develop policy. The funding also helps parties employ communications staff. The standard handbook, *Parliamentary Practice in New Zealand*, says state funding helps MPs with “discharging their responsibilities as legislators and elected representatives; developing, researching, critiquing

18 Geddis, A. (2007). “Rethinking the Funding of New Zealand’s Election Campaigns”. *Policy Quarterly*, 3(1), 4-5.

19 Electoral Commission. (n.d.) *2020 General Election and referendums: party expenses for the 2020 General Election*. <https://elections.nz/democracy-in-nz/historical-events/2020-general-election-and-referendums/party-expenses-for-the-2020-general-election/>.

and communicating policy; communicating with constituents and other communities of interest; meeting the operational needs of each party in fulfilling its parliamentary responsibilities; and meeting the costs of ICT equipment for members' direct use, and for use by their support staff in their offices in and out of Parliament".²⁰

This funding is substantial: in 2022-23, for instance, the Parliamentary Service's budget was \$213 million. Elements of this are relatively uncontroversial. Parliament simply could not function without, for instance, the \$21 million spent on computing and other IT services for MPs. However, there was also approximately \$134 million paid out in "party and member support" over three years. According to the Budget, this money is for Parliamentary parties "to support their parliamentary operations including [their] Leader's office, support staff, research operations, Whip's office communications, [and] administrative and support services for members". These figures are shown in Table 1 for the five parties in the current Parliament.²¹

Table 1: Parliamentary funding (2022/23)²²

Party	\$
Act	10,379,000
Green	9,432,000
Labour	69,814,000
National	41,855,000
Te Paati Māori (from 1 July 2021)	2,559,000
Total	134,039,000

Such funding can be controversial because it includes activities such as communications with constituents, which can be seen as electioneering. In the words of one former Speaker, interviewed for this report, "Everything is used politically." Virtually everything MPs do ultimately contributes, or may contribute, to their re-election: "Any information or whatever you put out is [aiming to be] persuasive." In their view, the distinction between parliamentary and electioneering expenses is therefore difficult – or indeed impossible – to police. On a similar basis, the researcher Bryce Edwards has concluded that "much" of this ostensibly 'parliamentary' funding is used for partisan purposes.²³

The second kind of state funding – for regular or 'electioneering' purposes – can be seen as either a reactive measure, something that is necessary if supply-side policies limit private sources of revenue, or a proactive measure, a recognition that well-resourced parties able to develop and promote thoughtful policies are a part of the public good. New Zealand provides this funding in only one form: the election campaign broadcasting allocation. In 2020, the Electoral Commission allocated \$4.15 million to political parties to spend on producing and placing ads for television, radio and online. Roughly \$1.2 million went to each of National and Labour, \$300,000 each to the Green Party and New Zealand First, \$145,000 each to Act, the Māori Party and The Opportunities Party, and lesser sums to other parties. The funding is allocated according to a complex set of criteria that considers parties' support levels but also the need to provide them all with a "fair opportunity" to promote their policies.²⁴ This funding is uncontroversial to the extent that it is clearly for electioneering, so no boundary issues with 'parliamentary' spending arise, and its existence commands widespread support. However, the ways in which it can be used, and in particular the distributions among different parties, are the subject of recurring controversy.²⁵

20 Harris, M., and Wilson, D. (2017). *McGee Parliamentary Practice in New Zealand*, 4th edn. Oratia Books, 73-75.

21 The Treasury. (2022). *Vote Parliamentary Service, The Estimates of Appropriations 2022/23 – Finance and Government Administration Sector B.5 Vol 4*. <https://budget.govt.nz/budget/pdfs/estimates/v4/est22-v4-parser.pdf>. Ministers' Office funding can also be used for what are effectively electioneering purposes, for instance when office staff create government policy that then becomes party policy.

22 The Treasury, *Vote Parliamentary Service*.

23 Edwards, B. (2008). "Political finance and inequality in New Zealand". *New Zealand Sociology*, 23(2):1-14, p.8.

24 Electoral Commission. (n.d.). *About the broadcasting allocation*. <https://elections.nz/guidance-and-rules/for-parties/about-the-broadcasting-allocation/>.

25 Geddis, A. (2021). "Funding New Zealand's Election Campaigns: recent stress points and potential responses". *Policy Quarterly*, 17(2), 9-13.

State funding overseas

Other countries have similar broadcasting allocations. However, they also typically provide much more extensive forms of regular funding to political parties. Below we survey the most commonly employed methods and their strengths and weaknesses. Further discussion is provided in chapter 10 when we set out our preferred options.

Election expenses reimbursement

In this method, parties are reimbursed for a proportion of the expenses they incurred during the last general election campaign. The justification appears to be, in part, that election campaigning is a necessary or desirable activity, and therefore more deserving of support than other party activities. However, this form of funding has multiple drawbacks. It explicitly provides the largest benefit to the largest parties, reinforcing incumbency, and to some extent must encourage greater spending (up to a limit imposed by the state), which seems undesirable.

Tagged funding

At least one jurisdiction we surveyed, the UK, provides policy grants specifically tagged for parties to debate and develop policies to put to the electorate via their manifestos. This presumably reflects a view that policy development is an especially meritorious activity, and/or a desire to ensure that funding is not used for other activities, such as advertising.²⁶ This approach is not without its attractions. However, parties may be better placed to judge whether, at a given moment, the best use of funds is to develop further policies or to communicate existing ones to voters. Moreover, such grants could be (albeit wrongly) construed as the state “dictating” policies to parties, especially in the current febrile political climate.

Per-vote funding

This method allocates funds to parties based on votes received at the last election, usually with a larger payment for the first tranche of votes so as to provide greater support (relative to vote share) to smaller parties. It appears to be the most conventional and commonly used form of state funding, and was recommended by the 1986 Royal Commission on the Electoral System. It provides clear and predictable funding and to some extent directs taxpayers’ money to the parties for which they voted.

However, it also suffers from several disadvantages. Notably, it provides no incentive for political parties to engage with the public, although it adds another incentive for them to win votes. Nor does it give citizens direct control over the allocation of state funding. Rather, it would encourage parties to look ‘inwards’ to the mechanisms of the political system and extract maximum support by changing the per-vote allocation rules. Moreover, this method, because it would not be under citizens’ direct control, might look like the state “paying” political parties and thus exerting influence over them, even if this were not the case.

Per-member funding

At least one jurisdiction, the Netherlands, allocates funds to political parties based partly on their membership numbers. To be eligible, parties must have at least 1,000 financially contributing members paying at least NZ\$1.75 each. This is attractive in the sense that it incentivises political parties to (re)build a membership base. However, given the likely difficulties of convincing New Zealanders to (re)join parties, a heavy reliance on this system might leave parties short of revenue. It is also not clear that simply signing up large numbers of members, especially in order to obtain subsidies, would necessarily result in an engaged and empowered membership, which is presumably the desired outcome.

Matched funding

In some jurisdictions, the state (partially) matches small donations made by individuals. For instance, in Germany, for every NZ\$1.70 an individual gives to a political party, the state gives 75c, up to a maximum of \$5,500. This creates

26 UK policy development grants assist with the development of policies for inclusion in any manifesto. Parties must have at least two sitting and voting Members of the House of Commons to be eligible for these grants. The total value allocated from the UK Parliament for this grant is £2 million per annum. The first £1 million is allocated equally between eligible parties. A formula is used to calculate the remaining funds. The Electoral Commission. (2022). *Policy Development Grants*. <https://www.electoralcommission.org.uk/who-we-are-and-what-we-do/financial-reporting/donations-and-loans/public-funding-political-parties>.

clear incentives for political parties to engage with citizens, fosters a high degree of individual control over the allocation of state funding, and is simple to explain. Its disadvantages are that individuals need to be able to give some money in the first place to attract the state subsidy, so it remains out of reach for the very poorest; and if implemented at a flat rate, it does not contain a mechanism to disproportionately subsidise the smallest donations. Such a mechanism is already in place in the conceptually similar system of tax credits, discussed immediately below.

Tax credits

In this system, when an individual donates to a political party, the party notifies the tax authorities and they issue the citizen with a credit or reimbursement for a large proportion of that donation. The credit is generally set so that only small donations are subsidised. The Canadian system, for instance, heavily subsidises donations up to NZ\$500 but less so after that, and there is no subsidy for any donation over \$1,640. The net effect is that, although the state does not in fact directly give political parties any funds, it enormously increases the volume of small private donations by significantly reducing the cost to the individual donor.

This method is attractive for several reasons. First, the citizen effectively controls where state funding goes, by selecting the party that benefits from their having their donations significantly subsidised. Second, this system strongly encourages a wide range of small donations, and creates powerful incentives for parties to engage broadly with the electorate.

In terms of disadvantages, tax credits are, like matched funds, available only to those who can provide some of their own money upfront, although they can easily be weighted to disproportionately favour very small donations. Tax credits also potentially provide less predictable funding than, for instance, the per-vote system. However, this does not seem to pose a problem for Canadian political parties, which have adapted their fundraising systems to reliably generate significant sums this way. Finally, our focus groups and polling suggest the public may find the tax-credit system difficult to understand, at least initially.

Democracy vouchers

This is the newest and most innovative of the state funding systems currently in operation. In Seattle, the city government, at the start of each election year, sends every enrolled voter four democracy vouchers worth US\$25 each, for a total of \$100. Voters can only spend them on the political candidate of their choice, either by returning the vouchers in a prepaid envelope or by using a secure online portal. This gives voters the maximum control possible in a state funding system. It distributes state funds in the most egalitarian manner possible, and, the evidence suggests, has both significantly broadened the base of party funding and encouraged a wider range of candidates to stand.²⁷

Seattle's system has experienced certain problems, such as candidates paying companies to 'harvest' vouchers on their behalf, though these have been at least partly addressed by tightening regulations. The principal remaining issue, according to officials interviewed for this report, is that despite being 'free' money, the vouchers are still only used by roughly 10% of enrolled voters, presumably because many others feel too disengaged from the political process. Democracy vouchers are, moreover, relatively variable, and available only in election years.

Rights and responsibilities

To conclude this discussion of state funding systems, it is worth considering what, if anything, the state might demand in return. Political parties are given a central position by New Zealand's democratic arrangements and, as above, receive significant funding for their parliamentary activities. It is sometimes argued that they do not have to shoulder many responsibilities in return, and that they should be more accountable to their members and to the public, given their power.²⁸ For instance, they have not traditionally been required to publish annual accounts, although the Electoral Amendment Bill currently before Parliament seeks to change that. We address later on the question of whether, in return for state funding, parties should face still-greater accountability.

27 City of Seattle. (n.d.). *External Reports*. <https://www.seattle.gov/democracymatcher/program-data/external-reports>.

28 Chapple, S. (2022). Submission to the Independent Electoral Review.

2. The issues at stake

This chapter sets out the pragmatic and philosophical issues – notably equality of political influence and freedom of expression – that arise when political party funding is examined.²⁹ The subsequent chapter looks at whether the concerns raised below are borne out in practice.

Money, power and democracy

Concerns about political finance sit in a wider context of long-standing debates over the nature and impacts of corruption. Although New Zealand scores highly on traditional measures of political integrity, it remains vulnerable to what the influential academic Michael Johnston has described as the most common form of corruption in liberal democracies: trading in influence.³⁰ Although this term sometimes refers to specific corrupt acts that have already been criminalised, it can also be used to describe a host of currently legal practices.³¹ For even when developed countries have institutions strong enough to ward off the most blatant forms of corruption, such as outright bribery, they still allow political influence to be bought and sold through various channels that are an accepted part of the political landscape.

Indeed whole industries are built around activities such as lobbying, the ‘revolving door’ of people moving between public and private posts, appointments to government-controlled boards, misuse of corporate hospitality – and of course political party funding. As Victoria University researchers James Gluck and Michael Macaulay note, trading in influence “is usually well within the bounds of how [public] institutions are in fact designed to work”.³² It can be especially powerful when its different forms are intermingled – if, for instance, a given group can draw on donations, lobbying assistance and political contacts to give themselves an advantage others do not possess.

Individuals trading in influence often attempt to downplay its importance by emphasising its ‘casual’ aspect, by attempting to normalise it – arguing that the access they enjoy is not unique or different to that available to ordinary citizens – and by stressing its legality.³³ However, the effect of trading in influence is to make citizens who cannot buy influence feel (sometimes justifiably) that they have little, or less, ability to affect government decisions. This in turn “damages and degrades” trust in public institutions.³⁴

This wider context of corruption-related debates also encompasses concerns about vested interests. As defined by researchers Grant Duncan and Simon Chapple, a vested interest is “a person, group or firm that wields sufficient economic or political influence to shift decision-making processes in directions that would favour themselves and do injury to the social interest”.³⁵ In addition to the above channels, vested interests can use their wealth and power to affect decision-making by funding third-party campaigning efforts, buying advertisements to promote their personal causes, and dominating media discussions.

Economic inequality is also a central backdrop to these debates. If income and wealth were (more) equally distributed, the question of who was funding political parties would be far less urgent. Conversely, the greater a country’s level of economic inequality, the greater the store of concentrated wealth to be defended – and the

29 In this chapter, we follow the intellectual schema set out by Jacob Rowbottom in *Democracy Distorted*. In discussions of democracy, many principles are of course invoked, including self-government, freedom from oppression, representation, democratic integrity and so on. For Rowbottom, however, equality is “a defining feature of democracy”, and arguments based on it “provide a powerful intuitive argument” against certain forms of political finance. Conversely, freedom of expression is the principal right invoked in defences of more libertarian political finance regimes. Rowbottom, *Democracy Distorted*, p.1.

30 Johnston, M. (2005). *Syndromes of Corruption: Wealth, Power and Democracy*. Cambridge University Press.

31 Gluck and Macaulay “Trading in influence”, p.49.

32 Gluck and Macaulay “Trading in influence”, p.51.

33 Gluck, *Trading in Influence*, pp.151-161.

34 Gluck and Macaulay “Trading in influence”, p.51.

35 Duncan, G. and Chapple, S. (2021). “What is a vested interest?” *Policy Quarterly*, 17(2), 3-8.

greater the ability of its holders to defend it. In New Zealand, income inequality rose more rapidly from 1985 to 2005 than in any other OECD country; the wealthiest 1% control an estimated 25% of all assets. Inequality on both measures is above the OECD average.³⁶ Noting the endurance of policies that exacerbate economic inequality, such as the absence of a capital gains tax, Auckland University's Tim Kuhner suggests there may be a connection between these policies and the "disproportionate financial influence" of those whose economic interests would be harmed by their reform.³⁷ On this view, inequalities of wealth create unequal political influence, which in turn worsens inequalities of wealth, the two forces creating a negative spiral.

Kuhner also paints a cautionary picture of the US, where inequality and political finance have combined to ensure governments' decisions typically align with elite preferences rather than the broad public interest. US researchers Martin Gilens and Benjamin Page argue that their democracy has been systematically co-opted by the wealthy, as "economic elites and organised groups representing business interests have substantial independent impacts on US government policy, while mass-based interest groups and average citizens have little or no independent influence".³⁸ Other examples could be cited: for instance, the unequivocal finding that party donations in the UK are linked to appointments to the House of Lords, a law-making body.³⁹ Such examples demonstrate the dangers of allowing economic inequality and vested interests to become entrenched in political systems.

Finally, in terms of the wider context, there are growing concerns about misinformation and disinformation, the rise of conspiracy-theorist groups, and general threats to democracy. While these are subjects distinct from political finance, they intersect in the sense that wealthy vested interests may conceivably be funding the third-party groups and movements responsible for the above threats. Such questions are ultimately beyond the scope of this report but worth noting to the extent that they emphasise the importance of transparency in the funding of key political actors and, in its absence, the potential for democracy to be destabilised.

Undue advantages

Within this wider context, the issue specific to political party finance is the dependence that money can create. Parties need funds to operate, to develop policies, and to communicate them to the public. Such spending is, broadly speaking, positive – or at least necessary. Much depends, however, on the sources of the funds supporting that spending. A large number of small donors is a virtue, a sign that political parties are grounded in their communities and appealing to a wide range of citizens.

The converse situation, however, can be troubling. If politicians and political parties rely on funding from a small number of large donors, those individuals may use that dependence to extract advantages not available to other voters. Large donors may get a meeting with key decision-makers and obtain, as a result, some specific benefit or outcome. Moreover, the public may – regardless of the actual truth – believe that undue advantages are being obtained, and this belief in itself can be corrosive of the functioning of the democratic system. As Transparency International New Zealand has noted: "Poorly regulated political finance regimes can undermine the integrity of processes and institutions of political participation and representation, resulting in corruption and a loss of public trust in politics."⁴⁰

Access and influence

A distinction is traditionally drawn between access, in the sense of a meeting or other interaction with a key politician or official, and influence, in the sense of a specific benefit or advantage. In New Zealand, neither is easy to observe or measure. In countries with lobbying registers, formal encounters between – for instance – donors and politicians can sometimes be tracked, though informal ones (in airport lounges, for instance) may remain obscure. In New Zealand, which has no lobbying register, it can be impossible to determine even if an individual

36 Rashbrooke, M. (2021). *Too Much Money: How Wealth Disparities are Unbalancing Aotearoa New Zealand*, Bridget Williams Books.

37 Kuhner, T. (2021). "Representative Democracy in an Age of Inequality". *Policy Quarterly*, 17(2), 21-28, p.24.

38 Quoted in Kuhner, "Representative Democracy", p.25.

39 Gluck and Macaulay, "Trading in Influence", p.51.

40 Transparency International New Zealand. (2022). *Submission on political party donations consultation*. <https://www.transparency.org.nz/blog/submission-political-party-donations-consultation>.

or organisation has enjoyed privileged access, though some information can be gleaned from ministerial diaries and media reporting. Whether an organisation or individual then enjoys disproportionate influence – for instance by getting legislation changed to suit their interests – is of course even harder to determine.

In a more general sense, moreover, causality can be difficult to prove. Someone may have had a meeting with a minister, and a policy may have been changed in their favour, but that does not by itself prove that the former led to the latter. Similarly, a party may change its policy to suit the interests of a major donor, but that could have occurred for unconnected reasons. When something illicit does occur, neither party directly involved is the victim, which is instead some third party: a business less able to shape political decisions in its favour, for instance, or the general public whose taxes go somewhere they should not. Consequently, there is little incentive for those with knowledge of undue influence to keep records of, let alone publicly disclose, the relevant interactions. This leaves external observers to piece together evidence that arises in other ways – for instance, through court cases or media reporting – or to point to more generalised reasons to be concerned about access and influence.

Access

It is sometimes argued that because ‘anyone’ can get a meeting with an MP, it is impossible for those with money to buy greater access.⁴¹ However, even if this is the case for backbench MPs, it is not necessarily true the higher one ascends the hierarchy of decision-makers. Numerous campaigners have told the media of being unable to obtain meetings with ministers, and meetings with the prime minister are evidently even scarcer.⁴² This contrasts, as discussed below, with the access given to large donors.

Separately, it is sometimes argued that even if donations purchase access, they do not purchase specific influence – and there is thus much less reason to be concerned. There are at least two strong counterarguments, however. First, if all citizens with equally important concerns should have an equal hearing, it is unjust even if donations purchase access and nothing more.

Second, specific influence may not always flow from access (politicians may meet people they have no intention of favouring), but the two are clearly linked. As the journalist Vernon Small once wrote of cash-for-access schemes, “If it is not to get an advantage, to wield more power than the average voter, why would donors spend so much for a few minutes in the ear of the current or next prime minister? And doesn’t influence come arm in arm with access?”⁴³ It is of course difficult to exert the former without the latter. And even if one needs a good case to convert access into influence, the donor may still have an unjust advantage over others who have equally good (or better) cases but lack the money to purchase a meeting.

Influence

Undue influence can take different forms. In more overtly corrupt countries, it could be a tax exemption, the award of a contract, or a politician voting a certain way. In less overtly corrupt countries, it might be a minor policy change, an official honour, or a government-appointed board position.⁴⁴ Such subtle forms of bias are especially important in a developed country like New Zealand. Its politicians are unlikely to provide a favour to a \$100,000 donor if the request is a fanciful one: an outright demand for a law change, for instance, or support for a clearly ill-conceived business idea. But if there are several businesses with innovative and well-grounded ideas that might benefit from government support, the one with greater resources, greater connections and the ability to give a party \$100,000 may well ‘get the ear’ of a politician and thus an unfair head start on the others. Conversely, politicians may be reluctant to advance ideas that are detrimental to the interests of their donors.

41 National MP Simon O’Connor, for instance, advanced this theory when one of the authors (Max Rashbrooke) was presenting evidence to the Justice Select Committee on 29 September 2022.

42 See, for instance: Radio New Zealand. (2021, April 6). Waikato mental health campaigner’s long wait to meet minister over concerns. <https://www.rnz.co.nz/news/national/439914/waikato-mental-health-campaigner-s-long-wait-to-meet-minister-over-concerns>. One of the report’s authors can also testify to having attempted, without success, to organise meetings with certain ministers.

43 Small, V. (2014). Does Cabinet Club buy influence? <https://www.stuff.co.nz/national/politics/opinion/10032477/Does-Cabinet-Club-buy-influence>.

44 Thomas Burke draws a distinction between three types of corruption – quid pro quo deals, monetary influence, and distortion of views – although the latter two shade into each other. Burke, T. (2004). *Donations to Political Parties: Disclosure Regimes, background note 2004/04*. Parliamentary Library, p.8.

The above concerns are strengthened if lobbying is involved at the same time as donations are being made, as part of a wider pattern of trading in influence. In addition to raising concerns from a purely democratic perspective, such trading in influence also harms the functioning of markets. When businesses succeed because they have bought influence rather than offered consumers the best possible product, markets become less efficient and consumers lose out.⁴⁵

Donations can also create significant conflicts of interest for parties, if the money motivates them to take decisions not aligned with the public good. While in other instances a minister can resolve an individual conflict of interest by not participating in a particular decision, a political donation creates a conflict of interest for the entire party.

Another form of influence is the more generalised biasing of a party towards the interests of a class of people able to make large donations. By acting as a group or industry, large donors can purchase access or otherwise influence politicians. This in turn can lead to striking imbalances in people's opportunities to have their cases heard and affect decision-making. Ultimately it can lead to a US-style situation where politicians' choices no longer bear much resemblance to the preferences of the vast majority of their constituents.

Funding imbalances

Donations may also create an imbalance in the resources available to political parties if one is more successful at fundraising than others. Such parties may be able to better communicate their message to the public simply by having more money for advertising, creating an uneven playing field. This violates the principle that elections should be determined by who has the best ideas, not who has the most money to communicate them.

This concern is heightened if the dominant party's funding comes from a few wealthy donors, who may then have an outsized influence on the contest. As the British academic Jacob Rowbottom has argued, if a political party can spread its message far and wide "simply because it has a smaller number of wealthy patrons", this "undermines the equal status of those individuals supporting an opposing party, but who cannot donate as much. In a system where large donations are permitted, the support of the latter group of individuals counts for less."⁴⁶

While writing this report, we did hear counterarguments. One party leader, for instance, said it was "a good thing" if parties had to appeal to more affluent citizens, as they might then "get some insights from the wealthy as to how wealth is created". It was not obvious, however, why the views of wealthy individuals were more important than those of people living in poverty, and overall we found this argument unpersuasive.

Donors' motivations

One defence of donors is that they are just people who "care about democracy", in the words of the National fundraiser (and former Cabinet minister) Paula Bennett.⁴⁷ This argument would be more convincing if donors supported the democratic system as a whole by donating to all parties, or at least the two major ones. But this practice of bipartisan donation appears to be dying out: all recent major donors have given only to one side of politics.⁴⁸

Moreover, donors' own candid testimony contradicts this account. Many years ago, business leader Douglas Myers was quoted as saying, "Chequebooks are always open for political parties – as long as they get things right."⁴⁹ Another business leader of the era, Selwyn Cushing, acknowledged that obtaining access was very much "part of the play", and that those making large donations expected to be able to present their case to

45 See Kuhner, T. (2014). *Capitalism v. Democracy*. Stanford University Press, pp.141-236.

46 Rowbottom, *Democracy Distorted*, p.125.

47 Coughlan, T. (2022). *National Party donations: Paula Bennett organises \$1.8 million in funds from wealthy New Zealanders*. <https://www.nzherald.co.nz/nz/politics/national-party-donations-paula-bennett-organises-18-million-in-funds-from-wealthy-new-zealanders/X33SIFZ2HEOH5VFWOMCAT6M4M/>.

48 Anderson and Chapple identify 20 cross-spectrum donors active before 2019. However, a search of the post-2019 donations records finds no such activity, at least among named donors. The last readily identifiable cross-spectrum donor appears to have been Go Bloodstock NZ, in 2017. Anderson, T., and Chapple, S. (2020). *Patterns of Political Donations in New Zealand under MMP: 1996-2019*. Institute for Governance and Policy Studies working paper 20-05.

49 Roper, B. (2006) "Business political activity in New Zealand from 1990 to 2005". *Kōtuitui: New Zealand Journal of Social Sciences Online*, 1, 166.

decision-makers. Another corporate chairman noted: “There are people out there who give tens of thousands, if not into the hundreds of thousands, [and] possibly have more influence as a result of that”.⁵⁰

Similarly, most donors interviewed for this report said they gave to support a particular point of view, not democracy as a whole. “I’m slightly far right, as a business owner,” one donor said. “Of course, I won’t donate unless the direction or policy is more pro-business.” Another said that they “get the benefit of a political party that suits [their] natural inclination more than the other side”. Donors were also open about the fact that their contribution had personal benefits. One said a donation meant they had “more opportunity to have a direct meeting [with politicians]”.

Equal political influence

Underlying the above concerns is the principle of equal political influence. In addition to the basic principle of one person, one vote, it is sometimes argued that everyone should have an equal influence on the political process more generally, on all the thousands of decisions that governments take between elections. The point is slightly more complex than that, however. We would in fact expect those with stronger arguments to have greater influence in political debates, by convincing more people to take their side. The distinction to be made is that stronger arguments are a legitimate cause of greater influence, whereas deeper pockets are not: more money should not buy more power.

The ability to choose is crucial here. When stronger arguments win the day, it is because other citizens make a choice to accept those ideas. But the advantages secured by wealth do not flow from the audience’s choice; hence they are especially troubling. By funding communications and thus potentially dominating debate, wealth can help set political agendas and determine which views will get a hearing. Voters still have a choice of whether to listen, but not as to which views will be funded or disseminated in the first place.

In short, we might say that ideally everyone should have an equal and genuine *opportunity* to influence political decision-making – a condition that may well be significantly violated if political finance is not carefully regulated. In Rowbottom’s words, “When inequalities of wealth generate unequal chances to influence the democratic process, the principle of political equality is undermined.”⁵¹

The above discussion highlights the uneasy relationship between the ‘liberal’ and ‘democratic’ elements of liberal democracies. Such democracies rely on a basic equality between citizens, however defined. Liberalism, however, places great weight on personal liberty, something that can lead to significant inequalities of income and wealth. If that unequal wealth then leads to unequal political power, the ‘liberal’ element of a liberal democracy can corrupt the ‘democratic’ element.

Broadly speaking, there are two possible solutions to this problem. One is to reduce economic inequalities at source. In the quote often attributed to the American judge Louis Brandeis, “We can either have democracy in this country or we can have great wealth concentrated in the hands of the few; but we can’t have both.”⁵² The second solution is to try to prevent economic power being converted into political power. This, in the terminology of the philosopher Michael Walzer, creates a “blocked exchange”.⁵³ The regulation of political finance, as discussed in this report, sits squarely in the latter category.

Freedom of expression

The above concerns about undue influence, and the corresponding attempts to regulate political finance, must take account of a second major principle: freedom of expression. It is not the case that, in a simplistic sense, money equals speech. Donations are certainly not the most important form of freedom of political expression, that being the simple freedom to state one’s political views without reprisal. In comparison, the ‘speech value’ of donations, which do not directly express a specific viewpoint, is very low. Nonetheless, donating is one

50 Parliamentary Library. *Donations to Political Parties*, p.12.

51 Rowbottom, *Democracy Distorted*, p.31.

52 Smithsonian National Museum of American History. (n.d.). *The Corporate Era, 1860s-1930s*. <https://americanhistory.si.edu/american-enterprise-exhibition/corporate-era>.

53 Walzer, M. (1983). *Spheres of justice: A defense of pluralism and equality*. Basic books.

way to express one's support for a political view or party, both directly and by facilitating expressive activities such as leafleting and hall hire for meetings. When countries have sought to impose extremely low limits on election spending, so as to prevent the spending of "virtually any money", courts have ruled that this would violate freedom of expression.⁵⁴ On similar lines, a 2000s-era New Zealand Cabinet paper, sighted during the researching of this report, argued that overly strict donation limits might infringe the Bill of Rights Act.⁵⁵

A strict freedom-of-expression interpretation would, therefore, argue for no curbs on donations. However, freedom of expression is routinely restrained in a democratic society in order to protect the rights of others, hence the standard curbs on defamatory statements and child pornography. Internationally, the European Convention on Human Rights allows freedom of expression to be limited when "necessary in a democratic society", specifically citing the need "to protect voters ... from being subjected to overwhelming election propaganda by a party which has greatly superior financial resources."⁵⁶ On similar lines, a former National Party leader, interviewed for this report, argued that objecting to constraints on political donations was like objecting to being forced to drive on one side of the road. And as above, once-legal practices, like paying citizens to vote for a certain candidate, have later become illegal. A society's view on the acceptable uses of money is always subject to change.

Moreover, the principle of equal opportunity for political influence, as described above, provides a strong justification for regulating donations. If donations can earn their donors greater access or influence than others enjoy, the principle of equal political influence justifies (at least) transparency of donations, so that the public can make its own judgement about donors' influence, or (going further) hard limits on donation amounts, so that a specific source of potential undue influence is removed altogether.

Donation limits can also be thought of as a way to preserve the integrity of elections.⁵⁷ People's ability to participate equally in the democratic process is enhanced if public opinion is protected from the pressures of powerful financial groups. As Rowbottom puts it: "The greater spending of one person and promotion of a particular view may come at the expense of the political influence of another." Someone who can only send a letter to a newspaper is not on an equal footing with someone who can spend vast amounts on advertising. Attempts to limit wealth imbalances in politics can help stop people exercising "disproportionate power over the lives of others".⁵⁸

In this view, speech is not simply additive, each piece of political communication piled on top of the previous one. Speech can, in fact, crowd out other speech. As the Canadian Supreme Court argued in 2003: "There is only so much space for political discourse; if one person 'yells' or occupies a disproportionate amount of space in the marketplace for ideas, it becomes increasingly difficult for other persons to participate in that discourse. It is possible, in other words, that the voices of certain citizens will be drowned out by the voices of those with a greater capacity to communicate their ideas and opinions to the general public."⁵⁹

Along similar lines, the American academic Owen Fiss has argued: "In politics, scarcity is the rule rather than the exception. The opportunities for speech tend to be limited, either by the time or space available for communicating or by our capacity to digest or process information."⁶⁰ For all the internet's abundance, individuals' attention span, time and ability to scrutinise arguments are not infinite. If one party produces a vast amount of information, the public may simply not see – or have time to engage with – content from other parties. More speech can, in this sense, come at the expense of other speech.

For all these reasons, donation limits are not just a means of (legitimately) restricting rights but also of enhancing them. Such limits can enhance listener autonomy, by preventing political debate being dominated by one side. They can help speakers compete on fairer terms, enabling citizens to better evaluate the options. After all, the

54 Kuhner, T. (2013). "The Democracy to Which We Are Entitled: Human Rights and the Problem of Money in Politics". *Harvard Human Rights Journal*, 26, p.77.

55 Rowbottom, *Democracy Distorted*, p.33, and Cabinet Policy Committee. (n.d.). Review of the Electoral Finance Regime, p.7.

56 Quoted in Kuhner, "The Democracy to Which We Are Entitled", p.78.

57 Rowbottom, *Democracy Distorted*, p.35.

58 Rowbottom, *Democracy Distorted*, p.42.

59 The case was *Figueroa vs Canada (A.G.)*. Geddis, A. (2006, February 25). *The regulation of election campaign financing in Canada and New Zealand*. Paper presented to the Political Finance and Government Advertising Workshop, p.13.

60 Fiss, O. (1996). *Liberalism Divided: Freedom of speech and the many uses of state power*. Routledge, pp.15-16.

right to vote – the most basic expression of political equality – can be undermined if the competition between parties prior to the vote is unequal. On similar lines, the European Court of Human Rights has stressed the need “to place certain restrictions” on political expenditure in order to preserve the integrity of elections.⁶¹ Limits on donations and spending may thus be justified.⁶²

Such limits, however, cannot be chosen at random: they have to be justified through clear evidence that the theoretical problems discussed above are actually manifest in real life. Ultimately, donation regulations are a question of balancing freedom of expression and political equality – of striking, in the words of Baroness Hale, “the right balance between the two most important components of a democracy”.⁶³

State funding

State funding of political parties invokes the same rights discussed above, but in different ways. In what follows, ‘state funding’ refers to subsidies for non-parliamentary work: policy development, the communication of that policy, and parties’ other day-to-day operations.

State funding is premised on the idea that it is in the public interest to have strong political parties. In the words of the UK’s Phillips Review: “Healthy parties are in themselves good for democracy. It is in our interest that they prepare robustly researched policies, that they consult widely, and that they train people in the skills needed to be effective in public office.”⁶⁴ This makes them part of the public good, the set of interests that all citizens have in common, and justifies the use of taxpayer money to support them. Communicating policies is part of this public good, since policies are not much use in political debate unless citizens know about them. All this helps answer the question of why the state should support parties unable to convince citizens to give them large amounts of money. Moreover, if delivered in the right way, state funding should enhance equality of political influence among citizens, and act as a natural counterpart to donation and spending limits.

State funding can, however, be opposed on philosophical and pragmatic grounds. The philosophical objection is straightforward: state funding involves spending an individual’s taxes on a party whose policies they may despise. It enlists their ‘expression’ in the service of opposing views. The counterargument is that such funding does not compel a taxpayer to support a particular policy or set of policies; it only compels them to recognise that party (and indeed every other) as a participant in the democratic process – a participant, moreover, that needs support if that process is to function properly. In addition, taxpayers’ money is constantly allocated to causes they disagree with, be it welfare or waging war, but this is not seen as a reason to abandon such spending.

The pragmatic objection is that state funding may encourage parties to behave in undesirable ways. It is a mistake, on this view, to think that influence is exerted only by private individuals and organisations. The state itself is not neutral. Instead it is substantially controlled by one or other of the two main political parties – parties that, moreover, are perfectly capable of colluding to create a funding system that favours them over their smaller rivals. This is sometimes called the ‘cartelisation’ of political parties.

One main line of criticism, therefore, is that any state funding system would inevitably be biased in favour of larger parties. The counterargument is that no system’s design is preordained. State funding would, under any sensible proposal, be allocated not directly by Parliament but by an arm’s length body such as the Electoral Commission, using fixed and transparent criteria. The larger parties could, of course, enforce biased criteria on the commission; it is sometimes argued that this already occurs with the election broadcasting allocation. Clearly, the terms of allocation for state funding would have to be agreed in a wider process not dominated solely by the two main parties. This, though not easily achieved, is far from inconceivable.

A second pragmatic objection is that state funding could further diminish political parties’ already reduced engagement with the electorate. Parties would lose the incentive to reach out to citizens for support, and would

61 Quoted in Kuhner, “The Democracy to Which We Are Entitled”, p.77.

62 So too may greater donations disclosure. New Zealand’s Attorney-General has recently argued that although “a non-anonymous political donation is an expressive act... [which] impliedly expresses the donor’s support for the donee party or candidate”, nonetheless lowering the threshold for disclosing donors’ identity “can be seen as reasonable and proportionate”. See: <https://www.justice.govt.nz/assets/Documents/Publications/20220628-NZ-BORA-Advice-Electoral-Amendment-Bill.pdf>, pp.3-4.

63 Quoted in Rowbottom, *Democracy Distorted*, p.35.

64 Quoted in Rowbottom, *Democracy Distorted*, p.129.

turn inward, focusing instead on extracting as much as possible from the state-funding process. An already attenuated party membership would be further disenfranchised. The counterargument is that state funding can be designed to avoid these problems – and, indeed, to enhance engagement with the electorate. While a more detailed discussion of the options must wait for later, we can for the moment point out that state funding could go hand in hand with a donations regime that allows large numbers of small donations. In fact, state funding could actively encourage such dispersed donations, for instance by providing subsidies up to a small dollar amount. Few things are inevitable when it comes to state funding; most outcomes are determined by particular design choices.

Some forms of engagement with citizens and members, moreover, are more desirable than others. Centre-right figures interviewed for this report sometimes stressed the ‘accountability’ dimension of obtaining donations, arguing that an inability to raise money in this way was a strong signal that a party had failed to connect with the electorate. But although this argument has some merit, the most important accountability is surely that delivered by voters at elections. Moreover, this argument is open to the same objections raised above: if parties substantially rely on large sums from a small range of donors, their ‘accountability’ is much greater to wealthy citizens than to poor ones, and it is hard to see how that is morally justified. State funding designed to encourage small-scale but widespread donations can, in fact, enhance accountability by making it more egalitarian.

Te ao Māori perspectives

Party funding is a core element of the country’s political arrangements, raising the question of how it should be regarded in light of Te Tiriti o Waitangi. In a 2021 consultation paper on political donations reform, the Ministry of Justice argued that the Waitangi Tribunal had identified funding of Māori representatives as potentially “an exercise of tino rangatiratanga”. Donations reform, the consultation paper added, “could also disproportionately impact certain groups, including Māori (for example if Māori are more likely to make political donations collectively through non-individual pathways)”.⁶⁵

Although there does not appear to be extensive research in this field, the Māori perspectives expressed to date tend to favour greater transparency. Te Paati Māori, for instance, has argued: “All donations to political parties should be made public, we support full transparency. The people of Aotearoa deserve to know who is funding their political parties.”⁶⁶

The few submissions from Māori organisations on the above consultation were along similar lines. The National Maori Authority, for instance, supported lowering the threshold for disclosing donor identity to \$1,500, and generally stressed the importance of transparency. The organisation also noted a lack of detailed research, and urged the Ministry of Justice to convene “a group of former Maori MPs or political advisors to help guide them on better understand[ing] and potentially defining these aspects of Te Ao Maori on political donation reform”. This might help generate greater clarity “on the important roles of manaakitanga and koha”.⁶⁷

65 Ministry of Justice. (2021, August 5). *Package of potential changes to political donation settings prior to 2023 General Election*. https://consultations.justice.govt.nz/policy/political-donations/user_uploads/20211202-proactive-release-version---5-august-political-donations-briefing.pdf, pp.10-11.

66 Te Pāti Māori [@Maori_party]. (2022, August 10). [Tweet]. https://twitter.com/Maori_Party/status/1557202227697430528?s=20&t=5kWrD2-qoVLq7aUBQ12T9A. The party has also argued that charities should be able to donate, something generally regarded as unlawful under current charities regulation.

67 Tukaki, M. (2021, January 19). Submission and response from the National Maori Authority Nga Ngaru Rautahi o Aotearoa: Reforming political donations, pp.4-5.

3. Why money matters

The previous chapter set out multiple reasons why one might be worried about the presence of money in politics. But are those concerns borne out in practice? This chapter examines evidence from both overseas and within New Zealand as to whether political donations lead to influence or to funding imbalances and thus differences in electoral success. This chapter also considers New Zealand-specific factors that might heighten concerns. The following chapter then looks at New Zealand's history of donation regulations and donations-related incidents.

Donations, access and influence: international evidence

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”, in the words of Australian academics Shane Leong and James Hazelton.⁶⁸ 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 Kate Griffiths and Owain Emslie claim that large donors “can achieve significant access and influence”.⁶⁹

Other researchers, meanwhile, have observed that a small group of donors contribute to “pay for access” fundraising events in Australia.⁷⁰ Some high-spending lobby groups also have policy decisions determined in their favour: the hotel lobby group, for instance, has been influential in preventing gambling reform in state and federal elections, and has donated around A\$500,000 to the Coalition and A\$800,000 to Labor.⁷¹ Highly regulated industries, such as mining, transport, energy and property construction, provide the highest level of donations, make the greatest number of commercial lobbying contacts, and have the most meetings with senior ministers.⁷² Although this does not provide causal evidence of policy influence, financial research shows that ‘corporate political activity’ – broadly defined as firms' efforts to influence or manage political entities, for instance through campaign contributions or lobbying – is an important determinant of company performance.⁷³

Politics scholar Iain McMenamin, meanwhile, examined payments made to Australian political parties by 450 large businesses over seven years. If there were no expectation of payments generating political influence, he argued, the partisan bias of contributions “should not reflect changes in political competition ... contributions should not follow political power because access does not grant influence over political power”.⁷⁴ But his analysis showed that if the Coalition is ascendant, businesses direct their contributions there, and if Labor has the political advantage, businesses tend to split contributions evenly between both (the Coalition being traditionally more business-friendly). This supports the hypothesis that influence is expected from political donations.

Meanwhile, a 2017 Australian Senate Select Committee into the Political Influence of Donations examined subscriptions to business forums. Sometimes costing over A\$100,000 per annum, these subscriptions entitled businesses to different levels of access, depending on the type of subscription purchased. Typically the

68 Leong, S., & Hazelton, J. (2017). “Improving corporate political donations disclosure: Lessons from Australia”. *Social and Environmental Accountability Journal*, 37(3), 190–202.

69 Griffiths, K., and Emslie, O. (2022, February 1). \$177 million flowed to Australian political parties last year, but major donors can easily hide. *The Conversation*.

70 Wood, D., Griffiths, K., and Chivers, C. (2018). Who's in the room? Access and influence in Australian politics. Grattan Institute.

71 Griffiths, K., Wood, D., and Chen, T. (2020, February 3). How big money influenced the 2019 federal election – and what we can do to fix the system. *The Conversation*.

72 Wood, Griffiths and Chivers, Who's in the room?.

73 Lux, S., Crook, T. R., & Woehr, D. J. (2011). “Mixing business with politics: A meta-analysis of the antecedents and outcomes of corporate political activity”. *Journal of management*, 37(1), 223–247.

74 McMenamin, I. (2008). “Business, Politics and Money in Australia: Testing economic, political and ideological explanations”. *Australian Journal of Political Science*, 43(3) 377–393, p.379.

access included participation in policy briefings, “boardroom-type events” and functions such as networking dinners. An A\$110,000 platinum-level subscription to the Liberal Party’s Australian Business Network entitled a company to two places at numerous federal parliamentary briefings and boardroom policy forums, two places at the Budget Night Dinner in Canberra, and two places at two of the Prime Minister’s Networking Dinners.⁷⁵ While some donors claimed they simply wanted to support the democratic process, others explicitly sought to engage in policy discussions, or to be “building and maintaining relationships with key political stakeholders”. This included attending business forums and other party or candidate events that provided the opportunity to “engage with members of Parliament on matters relevant to their industry”.⁷⁶

More direct claims of influence have also been made. Labor Senator Sam Dastyari, for instance, was found to have contradicted his own party’s policy on relations with China after taking payments from a Chinese businessman.⁷⁷ Meanwhile, survey data collected by Transparency International Australia found that 18% of respondents who had worked in government had “many times” personally witnessed an official or politician making (or had suspected them of making) a decision in favour of a business or individual who provided political donations or other support. The figure for those responding “a few times” was 25%.⁷⁸

In the US, meanwhile, not all studies show that donations translate into influence. American researchers have found that corporate campaign donations, on average, do not result in monetary gains for corporations.⁷⁹ However, earlier research by Laura Langbein suggested that “money does indeed buy access”. This is important because access is generally a precondition for exerting influence over public policy. Donations themselves, Langbein argues, “have little meaning for a congressman, because they do not carry any ‘message’. Only access, or some other form of direct or indirect communication, can translate money into influence.”⁸⁰ Justin Grimmer and Eleanor Powell likewise found evidence that “corporations and business [political action committees] use donations to acquire immediate access and favor – suggesting they at least anticipate that the donations will influence policy”.⁸¹

US industry-specific research is also revealing. For example, a study using data on state campaign donations by telecommunications companies found a correlation between those donations and the level of local loop pricing. It identified a significant effect of private money on regulatory outcomes.⁸² Research on the US insurance industry, however, has produced contrasting results. As insurance companies are heavily regulated by state governments, their products and sometimes premiums can be determined by state law, and insurance companies are among the largest campaign contributors in state elections. However, researchers found that campaign finance regulations have little detectable effect on policy.⁸³

US government contracting has been another fruitful area of research, given the potential for corporate donations to be essentially returned to the donors via public contracts. Researchers have found a relationship between campaign contributions from vendors and the size of contracts awarded.⁸⁴ Similar research has found relationships between companies that contributed more money to federal candidates and the number of contracts they win.⁸⁵ And at a more general level, of course, there is a great deal of research on the effect of money in distorting American politics. The work of political scientist Martin Gilens, for instance, demonstrates that US politicians’ decisions bear essentially no relationship to the expressed preferences of poorer or even middle-income Americans, but are very closely correlated to the preferences of the wealthiest. Gilens attributes this at least in part to the influence of wealthy donors.⁸⁶

75 The Senate. (2018). *Select Committee into the Political Influence of Donations*. Commonwealth of Australia, at 3.44 and 3.50.

76 The Senate, *Select Committee into the Political Influence*, at 3.62 and 3.67.

77 Wood, Griffiths and Chivers, *Who’s in the room?*, p.39.

78 Wood, Griffiths and Chivers, *Who’s in the room?*, p.9.

79 Fowler, A., Garro, H., & Spenkuch, J. L. (2020). “Quid pro quo? corporate returns to campaign contributions”. *The Journal of Politics*, 82(3), 844-858.

80 Langbein, L. I. (1986). “Money and access: Some empirical evidence”. *The Journal of Politics*, 48(4), 1052-1062, p.1052-53.

81 Grimmer, J., & Powell, E. N. (2013). “Money in exile: Campaign contributions and committee access”. *Journal of Politics*, 78(4), 974-988, p.974.

82 de Figueiredo Jr, R. J., & Edwards, G. (2007). “Does private money buy public policy? Campaign contributions and regulatory outcomes in telecommunications”. *Journal of Economics & Management Strategy*, 16(3), 547-576.

83 Fourniaies, A., & Fowler, A. (2022). “Do campaign contributions buy favorable policies? Evidence from the insurance industry”. *Political Science Research and Methods*, 10(1), 18-32.

84 Bromberg, D. (2014). “Can vendors buy influence? The relationship between campaign contributions and government contracts”. *International Journal of Public Administration*, 37(9), 556-567.

85 Witko, C. (2011) “Campaign Contributions, Access, and Government Contracting”. *Journal of Public Administration Research and Theory*, 21(4), 761-778.

86 Gilens, M. (2005). “Inequality and democratic responsiveness”. *Public Opinion Quarterly*, 69 (5), 778-796; Gilens, M., and Page, B. (2014). “Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens”. *Perspectives on Politics*, 12 (3), 564 - 581.

Studies outside the US, finally, tend to find a clearer relationship between political donations and influence. For instance, researchers in Brazil have shown that firms that made contributions to elected federal deputies experienced higher stock returns than firms that did not.⁸⁷ Elsewhere, 2022 research finds statistically significant data that political finance donors receive better access to legislative committees in Australia and Canada. This finding does not hold in Ireland and the UK.⁸⁸ However, UK research finds that donations “play an outsize role” in accounting for who receives peerages – a particularly concerning finding given that peers have lawmaking powers.⁸⁹

Fundraising imbalances: international evidence

In addition to the advantages potentially gained by donors, the pattern of donations may, as above, favour one party over another, giving it an unfair advantage.

US research is not unanimous on this question, although more recent investigations support the claim that fundraising affects electoral success. Early work by Gary Jacobson found campaign spending by congressional challengers had an impact on electoral outcomes, but spending by incumbents did not.⁹⁰ This finding was supported in part by subsequent research investigating the impact of money in state elections, which reported that campaign spending played a significant role in election outcomes. Again, spending by challengers had a larger impact than spending by incumbents.⁹¹ In contrast, US research by Steven D. Levitt found that campaign spending had an “extremely small impact on election outcomes regardless of who does the spending”.⁹² Researchers in Brazil argue similarly that incumbents have significant name recognition, so additional spending generates diminishing returns.⁹³

However, more recent research, using data from the 1996 US Senate elections, demonstrated that both incumbent and challenger advertising had a persuasive effect on individual voting behaviour.⁹⁴ Other recent US research, based on detailed, transaction-level data on communications, found that spending on messages targeting voters had a significant effect on their support for candidates. The researcher, Steven Schuster, argued that spending was “especially effective in changing the composition of voters, instead of convincing potential voters to switch their vote”.⁹⁵ Meanwhile, 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.”⁹⁶

Outside the US, researchers Yasmine Bekkouche, Julia Cagé and Edgard Dewitte have recently used a comprehensive dataset of all French legislative and UK general elections from 1993 to 2017 to investigate the impact of campaign spending on votes. Their research shows that in both countries, an increase in spending per voter consistently improves candidates’ vote share. Spending by radical or extreme parties, however, has much lower returns than spending by mainstream parties.⁹⁷ Separately, Cagé and Dewitte have found “a strong positive correlation between expenditures and votes” in the United Kingdom.⁹⁸

87 Claessens, S., Feijen, E., & Laeven, L. (2008). “Political connections and preferential access to finance: The role of campaign contributions”. *Journal of Financial Economics*, 88(3), 554-580.

88 Moxon, S. L. (2022). *Can money buy access? Political finance contributions and the impact on interest group access to legislative committees in Australia, Canada, Ireland, and the United Kingdom* [PhD thesis]. University of York.

89 Mell, A., Radford, S., & Thévoz, S. (2015). Is there a market for peerages? Can donations buy you a British peerage? A study in the link between party political funding and peerage nominations, 2005-14. University of Oxford Department of Economics Discussion Paper Series, No 744.

90 Jacobson, G. C. (1985). “Money and votes reconsidered: Congressional elections, 1972-1982”. *Public Choice*, 47(1), 7-62.

91 Glantz, S. A., Abramowitz, A. I., & Burkart, M. P. (1976). “Election outcomes: Whose money matters?”. *The Journal of Politics*, 38(4), 1033-1038; Gierzynski, A., & Breaux, D. (1991). “Money and votes in state legislative elections”. *Legislative Studies Quarterly*, May, 203-217.

92 Levitt, S. D. (1994). “Using Repeat Challengers to Estimate the Effect of Campaign Spending on Election Outcomes in the U.S. House”. *Journal of Political Economy*, 102(4): 777-798, p.777.

93 Samuels, D. (2001). “Incumbents and challengers on a level playing field: assessing the impact of campaign finance in Brazil”. *Journal of Politics*, 63(2), 569-584.

94 Goldstein, K., & Freedman, P. (2000). “New evidence for new arguments: Money and advertising in the 1996 Senate elections”. *The Journal of Politics*, 62(4), 1087-1108.

95 Schuster, S. S. (2020). “Does campaign spending affect election outcomes? New evidence from transaction-level disbursement data”. *The Journal of Politics*, 82(4), 1502-1515, p.1502.

96 The Economist. (2022, September 1). “Fundraising remains predictive of success in Congressional elections”. <https://www.economist.com/graphic-detail/2022/09/01/fundraising-remains-predictive-of-success-in-congressional-elections>.

97 Bekkouche, Y., Cagé, J., & Dewitte, E. (2022). “The heterogeneous price of a vote: Evidence from multiparty systems, 1993-2017”. *Journal of Public Economics*, 206, 104559.

98 Cagé, J., & Dewitte, E. (2021). It Takes Money to Make MPs: New Evidence from 150 Years of British Campaign Spending. <https://hal.archives-ouvertes.fr/hal-03384143/document>.

Looking beyond Europe, US-based researchers Gary Cox and Michael Thies have shown that “the marginal dollar of campaign spending buys the spender a great deal more in Japan than is true in the United States”.⁹⁹ Research suggests that incumbents and challengers gain equally from campaign spending in Brazil¹⁰⁰. In Australia, over the past five federal elections “the party with the biggest war chest tends to form government”, according to local researchers.¹⁰¹ More generally, studies surveyed by Bryce Edwards show a correlation between money and outcomes, where the highest-spending candidates or parties typically win. In some cases however, the standard cause and effect relationship may be inverted: the candidate who is already seen as the most likely winner may attract the most donations, rather than the greater volume of donations making them the candidate most likely to win.¹⁰²

Fundraising imbalances: New Zealand evidence

The next chapter deals with New Zealand-specific instances of donations leading to access and influence. Below we consider the local evidence on the connection between donations and electoral success.

In New Zealand, research replicates the French and British finding that spending on marginal, newly established parties is often ineffective. The most often cited examples are the three ‘millionaire’ vehicles launched last decade – Gareth Morgan’s The Opportunities Party (TOP), Colin Craig’s Conservative Party and Kim Dotcom’s Internet Party – none of which made it into Parliament, despite the sums spent by their founders. New Zealand researchers Simon Chapple and Thomas Anderson have shown that such parties received higher than normal donations: their average named donation since 1996 was \$96,542, compared to \$55,732 for National, \$40,717 for Labour, \$23,774 for the Green Party, and \$46,133 for Act. Such parties, Chapple and Anderson concluded, “cannot simply buy their way into power”.¹⁰³ This is mirrored in Australia, where in 2019 mining magnate Clive Palmer effectively donated A\$84 million to his own campaign but failed to win any seats.¹⁰⁴

Bryce Edwards has argued that even established minor parties, such as the Green Party and Act, have received “relatively poor value for money from their expenditure”. His analysis showed that in 2005, Labour spent \$4.16 per vote and National \$3.40, but Act \$34.00. Edwards also cited examples where increased resources had not led to electoral success: the Alliance Party, for instance, suffered declining vote shares even as it increased its private funding, and the Green Party did not lift its vote although its funding base increased.¹⁰⁵

There are, however, counterarguments. Notwithstanding their electoral failures, ventures like the Conservative Party still affected the elections they contested, taking up air time, winning at least small amounts of votes from other parties, and steering political debate towards certain issues. A stronger argument still is that just because some ways of spending money in politics are ineffective does not mean that all of them are. Given the difficulty of breaching MMP’s 5% threshold, starting a new party may not be a good use of funds. A well-directed donation to an existing party, however, may have a significant impact.

New Zealand history also provides instances of money having been influential. The New Zealand Party, founded in 1983 with funding from multi-millionaire Bob Jones, is widely believed to have helped oust the National Party in 1984 by splitting the non-Labour vote. In the MMP era, the only party that has formed without already having a sitting MP (without, that is, splitting from an existing party) is Act. Its birth was greatly assisted, as is detailed later, by \$2.8 million donated by a small number of wealthy donors who utilised complex schemes to conceal their identities. While it is sometimes claimed that the party’s electoral success was nonetheless modest, it consistently polled over 5% in three successive elections from 1996 onwards. It is very unlikely it would have achieved this without its patrons; by the same token, other smaller parties with equally deserving causes but without wealthy patrons have been unable to make the same progress. Act’s continued existence, moreover,

99 Cox, G. W., & Thies, M. F. (2000). “How Much Does Money Matter? “Buying” Votes in Japan, 1967-1990”. *Comparative Political Studies*, 33(1), 37-57.

100 Samuels, “Incumbents and challengers”.

101 Griffiths, Wood and Chen, How big money influenced the 2019 federal election.

102 Edwards, “Political finance and inequality”.

103 Chapple, S. and Anderson, T. (2021). “Who’s donating? To whom? Why? Patterns of party political donations in New Zealand under MMP”. *Policy Quarterly*, 17(2):14-20, p.17 and 20.

104 Griffiths, Wood and Chen, How big money influenced the 2019 federal election.

105 Edwards, “Political finance and inequality”.

is owed not just to its Epsom electorate seat but also to continued backing from wealthy donors, significantly out of proportion to its modest electoral performance between 2005 and 2020. For instance, commentators attribute the revival of its fortunes partly to detailed polling work carried out post-2017, an expensive activity it would be unable to maintain without substantial funding.¹⁰⁶

Beyond the smaller parties, it is sometimes claimed that even Labour and National's electoral fortunes do not depend on their funding. For instance, in 2020 National out-fundraised Labour two to one, yet lost the general election by a similar margin. This is strong evidence that money *by itself* is not enough to guarantee electoral success. However, this is not the same as saying that money has no impact, or that, if other things are in alignment, it cannot play a major role in electoral success.

Firstly, it is obvious that funding is needed to run an election campaign and communicate with voters. In the words of one former Labour general secretary, money is "pretty vital". Secondly, as the New Zealand electoral law expert Andrew Geddis argues, "It is a pretty safe bet that, all other things being equal, a candidate or party given the choice of facing either an opponent possessing twice their funds, or one with less funds than them, will plump for the latter option. After all, if money might make a difference in the electoral contest you are involved in, then you would be pretty silly to go into it at a significant disadvantage." Donations, he suggests, can be a form of political influence even more important than voting. "If someone were to say to a candidate or party, 'I'll either give you \$15,000, or my vote on election day', which option do you think would be chosen?"¹⁰⁷ Geddis's rhetorical question is borne out by the testimony of political actors, as discussed below.

If, moreover, money does not determine electoral success, it is hard to understand why parties would spend so much time chasing it. Of course, they do so in part because of the reality of electoral competition. If every single party spent negligible amounts on campaigning, money might not be very important. Voters' knowledge of parties' policies might also be accordingly limited. But once one party begins spending large amounts (up to its campaign limits), the others have little choice but to follow suit – unless, of course, that spending is itself ineffectual. The fact that parties *do* follow suit suggests this is not the case.

Donation amounts in New Zealand

Questions are sometimes raised as to whether donations to New Zealand political parties can really be considered problematic, given how small the sums are in the global context. The totals donated to all New Zealand parties over an election cycle will at best be in the tens of millions, whereas a US presidential campaign may now raise \$1 billion.

In such instances, however, relativity is everything. What matters is not whether donations are large compared to those made overseas, but whether they are large relative to the cost of running a New Zealand political party. And indeed they clearly are. The millions of dollars that political parties raise in donations are roughly on a par with the millions of dollars they spend campaigning at elections. Given that donations are a major – or potentially *the* major – source of party funds, this is hardly surprising. It also implies that a smaller amount of money can buy more influence than it would in larger countries, because it is more important relative to the total sum raised. In New Zealand, "the involvement of money is much lower" than it is in other countries, according to the New Zealand academic Simon Chapple. "To some degree, however, that merely means influence-peddling is just cheaper."¹⁰⁸

Some would still argue, however, that most individual donations to political parties are too small to generate much influence. In the words of one donor interviewed for this report, "\$5,000 won't buy much". National and Act spokespeople have taken a similar line when opposing mooted donation reforms.¹⁰⁹ There are various counterarguments, however. The first is that a wider class of donors – those representing a given industry, for

106 Ben Thomas, for instance, notes: "Their strategy is really well-informed by research, they've got very good people working on polling..." See: Dennett, K. (2021, August 2022). *Behind the scenes: The rise of ACT, and its leader David Seymour*. <https://www.stuff.co.nz/national/politics/300386224/behind-the-scenes-the-rise-of-act-and-its-leader-david-seymour>.

107 Geddis, "Funding New Zealand's Election Campaigns", p.10.

108 Institute for Governance and Policy Studies. (2020). *How to drop big money from NZ politics*. <https://www.wgtn.ac.nz/igps/commentaries/how-to-drop-big-money-from-nz-politics>.

109 New Zealand Parliament. (2022). *Electoral Amendment Bill – First Reading*. https://www.parliament.nz/en/pb/hansard-debates/rhr/combined/HansDeb_20220728_20220728_32.

instance, or simply wealthy people as a whole – may wield influence as a group, even if their individual donations are not enormous. Media reports on the New Zealand First Foundation (described in further detail below) showed that racing industry lobbyists donated amounts that, although not large by themselves, rapidly added up to many tens of thousands of dollars. As racing minister, New Zealand First leader Winston Peters “delivered significant benefits to the industry”, according to RNZ, including millions of dollars of government money spent on tax advantages and scrapping betting levies.¹¹⁰ While there is no evidence that the two things are connected, the public at least has a right to know such donations are being made, so they can judge for themselves.

Secondly, donations of a few thousand dollars and up are clearly large enough to purchase access to politicians (as is described below), which is in itself concerning. Thirdly, donors clearly believe that the sums they give make a difference, or are necessary. For instance, fishing firm owner Neil Penwarden gave Peters \$5,000 during a 2001 meeting in which the former alleged corruption in the scampi quota system. As *Stuff* reported, this “set the stage for the so-called ‘Scampi Inquiry’, which started after Peters alleged corruption in the industry during a speech inside the house, as outlined in Penwarden’s report, then failed to deliver any evidence after it began.” Penwarden was quoted by *Stuff* as saying: “It was suggested it was common these sorts of meetings usually generated a donation ... We gave the party \$5,000.”¹¹¹ These concerns are not necessarily strong enough to warrant the banning of donations in the order of several thousand dollars, but again they do suggest that greater transparency is needed.

Fourthly, decision-makers may be swayed by relatively small amounts. The Register of Pecuniary Interests requires MPs to disclose the gifts they receive, even small ones. The assumption is that small amounts can influence behaviour – otherwise, there would be no need to disclose them. International evidence reinforces this view. Consider, for instance, recent US investigations into the practices of the Sackler family, who sparked the opioid epidemic by aggressively marketing OxyContin to GPs. Fine-grained evidence gathered by the Sacklers showed that, firstly, as small a gesture as taking a GP out to dinner resulted in increased OxyContin prescriptions. What’s more, the data revealed that taking them out to dinner on a weekend raised prescription rates more rapidly than doing so during the week. On this evidence, individuals are enormously susceptible to influence when it is wielded in the right way. In the words of the award-winning chronicler of the Sackler dynasty, Patrick Radden Keefe, “The people who are paying for the steak dinners know what they’re doing.”¹¹²

Politicians would of course argue that they would not be so easily swayed. But so too did the GPs who yielded to the Sacklers’ lobbying, as Keefe’s reporting shows. And a salient point here is that donations are not operating in isolation. They are part of a wider system of lobbying and other close connections between politicians and vested interests. In particular, the fundraising world is one in which politicians, party officials and wealthy donors mix regularly, often in intimate settings such as donors’ homes. While one individual donation of, say, \$30,000 may not immediately change a politician’s mind, it is not hard to see how this constant socialisation – sometimes (as below) occupying an MP’s entire day – can lead to a subtle but sure inclination of the politician’s beliefs towards those of the donor.¹¹³

Long-term contextual trends

In addition to the international and New Zealand evidence about the impact of money on politics, there are several contextual, long-term trends that lend weight to the concerns expressed above.

One of them is the ‘hollowing out’ of parties, in which a decline in membership numbers reduces the organisations’ ability to solicit large numbers of small donations, leaving them more reliant on small numbers of large donations. As the next chapter notes, in the 1980s National’s membership was estimated at 250,000 and Labour’s at 100,000. This large, active membership contributed substantially to the parties’ finances. However, in New Zealand as elsewhere, involvement in political parties has declined precipitously; current estimates place both main parties’

110 Espiner, G., and Newton, K. (2020, February 12). *NZ First Foundation received tens of thousands of dollars from donors in horse racing industry*. <https://www.rnz.co.nz/news/in-depth/409320/nz-first-foundation-received-tens-of-thousands-of-dollars-from-donors-in-horse-racing-industry>.

111 Shand, M. (2020, March 8). *Fishing influence trawls deep into NZ First’s past*. <https://www.stuff.co.nz/national/politics/119832405/fishing-influence-trawls-deep-into-nz-firsts-past>.

112 Keefe, P. R. (2021). *Empire of pain: The secret history of the Sackler dynasty*. Anchor, p.21; and Keefe, P. R. (2022, September 2) Appearance at WORD Christchurch, <https://wordchristchurch.co.nz/programme/the-faraway-near-patrick-radden-keefe/>.

113 Gluck, *Trading in Influence*.

memberships at perhaps one-tenth of the above figures.¹¹⁴ Wealthy donors have become correspondingly more important as a source of funds.

A second long-term trend is the breaking-down of the separation between politicians and fundraising. As the next chapter shows, the evidence is mixed as to how successfully MPs and party leaders were ever 'kept away' from the process of raising donations. But in the pre-MMP era this separation seems to have been observed to some extent. This was considered important, as former party presidents noted in interviews with us, because the more closely politicians were involved in raising funds, the greater the opportunities for them to provide access or influence in return – or for the perception to arise that they were doing so. Direct fundraising by politicians, in other words, was seen as compromising.

It is clear that this distinction, to the extent it was ever observed, has comprehensively broken down. For some time now, political parties have openly sold access to MPs, and arguably to ministers, as part of their fundraising. For instance, the current National leader, Christopher Luxon, has been reported as having dinner at donors' homes in return for a donation of at least \$1,000.¹¹⁵ Meanwhile, Labour's selling of access was clear in news reports in early 2022, showing businesspeople posting pictures of themselves with the Prime Minister, Jacinda Ardern, at fundraising events they had paid \$1,700 to attend. One healthcare services CEO noted that they "took the chance to discuss with the prime minister some of the work going on across the pathology and laboratory network and to reinforce just how important the testing sector is to our healthcare system".¹¹⁶ Such encounters clearly create a contact and a familiarity that is not available to others and which could prove useful later on. Moreover, one MP told us of carrying out fundraising even though their party's senior officials had assured us this did not happen. One former Labour official also told us that when a particular MP was elected some years ago, it was widely discussed within the party that he would "bring the money in".

One defence of current practices is that, even in the above situations, no money actually exchanges hands between politician and donor, as the collection of the donation itself is handled by party officials. A leader, may, for instance, meet a donor at a private dinner or exclusive fundraiser, but leave a fundraising official to get in contact the next day with the relevant bank account details. This argument was made to us in several interviews with former party officials. We do not, however, find this defence persuasive. The point of a separation between politicians and fundraising is not to ensure someone else handles the mechanical exchange of bank account details, but to try to make sure that politicians have no knowledge of who is donating to the party. If, in practice, party leaders are dining with donors and discussing how much they will give, and therefore taking care of everything short of the actual cash transfer, the notional separation is largely meaningless.

A third relevant trend is the increasing cost of campaigning. Political campaigners interviewed for this report argued that this has been driven by three principal factors. The first is the decline in membership noted above, which means that activities previously carried out for free by volunteers (delivering leaflets, for instance) have to be paid for instead (in this case through increased postage). Second, even activities such as contacting voters have become professionalised. International evidence has shown that paid 'field organisers' are needed to train volunteers if the latter are to have the most effective conversations with voters. Third, online campaigning has become extremely important, opening up multiple channels for spending campaign money. In part, this is because online campaigning often requires specialised skills obtainable only from paid staff. Whereas previously an ordinary volunteer might have been able to write a persuasive pamphlet, they are far less likely to be able to design a targeted Facebook ad or construct a high-quality website. And even if some of the above spending brings only marginal benefits, it is hard for parties to avoid it if other parties are spending large sums. This is the 'arms race' effect. Costs are also increased by the development of the so-called permanent campaign, in which parties no longer limit campaign efforts to the three-month regulated period but rather operate continuously in electioneering mode. The need to fund all the above activities heightens parties' reliance on donors.

114 Chapple, S., Duran, C.P., and Prickett, K. (2021). *Political donations, party funding and trust in New Zealand: 2016 to 2021*, Institute for Governance and Policy Studies working paper 21/14, p.5; Transparency International New Zealand, *New Zealand National Integrity System Assessment 2013*, p.252.

115 Vance, A. (2022, June 19). *Cash for access? The price tag to schmooze New Zealand's political leaders*. <https://www.stuff.co.nz/national/politics/128962631/cash-for-access-the-price-tag-to-schmooze-new-zealands-political-leaders>. National Party material also makes it clear that access to leaders is being sold in exchange for donations: Pumapeople [@PumaharaC]. (2022, October 31). [Tweet]. <https://twitter.com/PumaharaC/status/1586919294247763969?s=20&t=vO9i9hRSTnfxjcv2jMxEA>.

116 Young, V. (2022, June 25). *On the Money: Don Braid, Fletcher, Steve Newman and more*. <https://businessdesk.co.nz/article/on-the-money/on-the-money-don-braid-fletcher-steve-newman-and-more>. Technically such fundraising is not classed as involving donations, but the underlying principle is the same.

A fourth long-term trend is the increase in migration to New Zealand from countries which have different attitudes towards political integrity. As is evidenced by Transparency International's Corruption Perceptions Index, in some countries payment in exchange for political favours is an accepted part of life. Fundraisers and politicians interviewed for this report noted an increase in the volume of contacts with recent migrants, who did not always understand New Zealand's different approach to such matters and were more likely to ask for favours in return for a potential donation. These concerns were registered even by officials from parties with strongly pro-immigration stances.

A final long-term trend is the rapid increase in income and wealth inequality in New Zealand during the last four decades, as noted above. Whereas someone in the richest 10% might previously have earned 5–6 as much as someone in the poorest 10%, that ratio is now 9:1. Wealth inequality also appears to have risen, to the point where the wealthiest 1% – roughly 40,000 people – control one-quarter of all assets, up from perhaps 16% in the mid-1980s.¹¹⁷ This trend both allows for greater donations at the upper end of the spectrum and gives such donors a greater incentive to defend their (enlarged) economic interests.

One way of summarising the above trends is to draw a contrast between, in simple terms, people power and money power. In the long run, the former has declined, owing to the reduction in citizen involvement in political parties; even where they remain involved, members generally have less influence than previously, at least in the main parties.¹¹⁸ Accordingly, parties rely less on volunteer time and more on money to keep their organisations going; this elevates the power of money in general and of large donors in particular. As this trend is undesirable for all the reasons outlined above, it is worth thinking about how a reformed system of political finance rules might reverse it, at least to some extent. We return to this theme later.

117 Rashbrooke, *Too Much Money*.

118 Party conferences, for instance, are increasingly regarded as "stage-managed" affairs in which members' policy remits have far less influence than formerly. Transparency International New Zealand, *New Zealand National Integrity System Assessment 2013*, p.259. See also: Dunne, P. (2022, August 11). *Labour grateful for National's continuing distractions*. <https://www.newsroom.co.nz/labour-grateful-for-nationals-continuing-distractions>.

4. Political finance in New Zealand: a brief history

Early regulations

Since political parties were not even a feature of the early New Zealand landscape, it is unsurprising that the first political finance regulations, contained in the Corrupt Practices Prevention Amendment Act 1895, focused instead on individual candidates. The latter were required to provide post-election documents detailing donations received and campaign expenditure. This included the name and description of every donor. Spending on electorate campaigns was capped at £200 (roughly \$40,000 today). These provisions were imported into the Electoral Act 1902, and then remained largely the same under the Electoral Act 1956. The electorate spending limit was lifted to £500, although given inflation in the intervening 60 years, this amounted to just \$26,000 in today's money. Crucially, again, these limits applied only to candidates; parties themselves could spend what they liked.¹¹⁹

But although candidates remained the focus of the disclosure regime, in politics more generally the parties were assuming greater importance. No data are available about their funding sources, but clearly they were varied. Both major parties, National and Labour, had large memberships who contributed funds through fees, small donations and fundraising activities. In the 1980s, it is estimated that National's membership was 250,000 and Labour's 100,000.¹²⁰ In an interview for this report, a former National Party president argued that the membership largely sustained the party in its day-to-day operations, while election campaigns were funded from larger corporate donations in what was known as a 'Business House' operation. As a general rule, National received donations from businesses and Labour from trade unions; however, many prominent businesses donated to both, whether from an altruistic belief that the democratic system required well-funded parties or simply to stay onside with whichever one was elected.¹²¹ Interviewed for this report, a former Labour general secretary confirmed that large firms like banks regularly donated \$5,000 (over \$10,000 in today's money) to both parties.

Given the absence of scrutiny, it is hard to say how much corruption took place under these arrangements. When it came to party donations, there were "absolutely no rules at all – it was open slather", in the words of the former Labour general secretary. Nonetheless the 1986 Royal Commission on the Electoral System felt able to claim that party funding "shows no sign of corruption ... and no excessive reliance by parties on a few special interest groups or institutions".¹²² Some interviewees for this report insisted that a high degree of integrity had been maintained, most importantly by ensuring that politicians themselves were not involved directly in fundraising, leaving that instead to designated party officials.

However, one long-standing Labour fundraiser, interviewed for this report, said that they and former party leader Norman Kirk had, as far back as the 1960s, routinely visited business headquarters asking for large donations. This suggests the separation of politicians from fundraising was far from complete, a point corroborated by a former Labour general secretary's account of a 1980s MP arriving at the party's headquarters bearing a large cheque from a donor. The fundraiser argued, moreover, that in Kirk's time donors were sometimes explicitly rewarded with political appointments or regulation changes (although given the absence of record-keeping and the passage of time, it is near-impossible to verify such claims).

And even if the Royal Commission's 1986 verdict had been correct, it was vitiated just a year later. In 1987, the Labour Party, having adopted unusually pro-business policies, received exceptionally large corporate donations,

119 Anderson and Chapple, *Patterns of Political Donations*, p.4.

120 Edwards, "Political finance and inequality", p.5.

121 Anderson and Chapple show this practice continuing after 1996. Anderson and Chapple, *Patterns of Political Donations*.

122 The Royal Commission on the Electoral System. (1986). *Report of the Royal Commission on the Electoral System 1986*.

generally thought to amount to \$3 million.¹²³ This would be \$7 million in today's money; as above, the most a major party can spend on election advertising now would be less than half that. In the former general secretary's words: "Suddenly, because Labour appealed to wealthy people, it was no problem getting money." At least one donation came from a bank account in the Cook Islands, well known for being a tax haven, while the financier Allan Hawkins, later jailed for fraud, gave the party \$250,000. Whether such donations enhanced business influence, or whether the party's leading lights were set on their course anyway, is debatable. Either way, such sudden influxes of cash were unsettling. And New Zealand's political system was changing profoundly, as the old first-past-the-post (FPP) system was replaced with a mixed-member-proportional (MMP) system in which the contest between parties became vastly more important than those between electorate candidates.

Political finance regulation under MMP

A recognisably modern system of regulating political finance emerged from several 1990s pieces of legislation: the Electoral Act 1993 and Electoral Amendment Acts passed in both 1995 and 1996. Although the main 1993 Act had little to say about political finance, the 1995 amendment Act introduced a range of regulations. Anyone donating over \$1,000 (\$1,600 in today's money) to either a party or a candidate had to have their name and address disclosed in an annual return to the Electoral Commission, if the party knew that information. If the donation was made fully anonymously, that was noted. A party's advertising spending in an election campaign was limited to \$1 million (\$1.6 million in today's money) plus \$20,000 (\$32,000) for each electorate a party contested. Individual candidates' election spending had already been capped at \$15,000 (\$25,000) by the 1993 Act.¹²⁴

This combination of a low threshold for disclosing donors' names and tight spending limits could have created a relatively strict political finance regime. However, the second amendment Act, passed just a year later in 1996, raised the threshold at which donors' names must be disclosed from \$1,000 to \$10,000 (\$16,000 in today's money). In addition, it was straightforward for parties to claim donations were anonymous, regardless of whether they actually were. In practice, this regime provided little transparency while facilitating secretive financial practices.

Scandals begin to mount

In 1996, for instance, wealthy businessman Trevor Farmer had his lawyers, Buddle Findlay, split a \$100,000 donation to the nascent Act party into 12 tranches, each conveniently under the \$10,000 disclosure threshold. These were contributed in the name of Farmer himself, several family members, and four of the law firm's partners. None had their names disclosed. More broadly, a small group of just eight wealthy businessmen provided Act with \$2.8 million, yet all remained anonymous until the *Sunday Star-Times* leaked details in 2001 of what it termed an elaborate "money maze".¹²⁵

By 1999, National had set up its own vehicle for circumventing the spirit of the legislation. The Free Enterprise Trust, chaired by 1970s party president George Chapman, bundled up donations from donors who would otherwise have had to be named, and 'gave' the money in the trust's name. The trust donated \$570,000 to the party's election campaign that year, making it the largest donor, as indeed it was again in 2000 and 2001. In 2002, it ceased operations, and was replaced by the Waitemata Trust. In 2005, the latter 'gave' \$1.25 million to National, again obscuring the true donors' identities. Though this was legal, as the law did not prevent such bundling of donations, it was an obvious attempt to prevent the public knowing who was funding the party.¹²⁶ And Labour had cottoned onto the same idea: in 1999 and 2002, former MP David Caygill ran a trust fund at his law firm (Buddle Findlay once more) that bundled up and anonymised donations.¹²⁷

Internal National emails also show politicians were not kept at arm's length from fundraising, as was often claimed. When lobbying colleagues to be made National leader in 2002, Don Brash noted the party's dire financial position and his connections in the business community, arguing: "I believe that attracting that

123 Bryce Edwards notes: "Most infamously, in 1987 the Labour Party's election campaign cost over \$3.5m, which was mostly funded by business donations." Edwards, B. (2008). "Political finance and inequality in New Zealand". *New Zealand Sociology*, 23(2):5. This figure was corroborated by interviewees with knowledge of the party's affairs at that time.

124 Anderson and Chapple, *Patterns of Political Donations*, p.6.

125 Hager, N. (2006). *The Hollow Men: A study in the politics of deception*, Craig Potton Publishing, p.226 and 248.

126 Hager, *The Hollow Men*, pp.234-5.

127 Hager, *The Hollow Men*, p.55.

money would be substantially easier with me as leader.” Once elected leader, Brash claimed he had not “the faintest idea” who donors were, but party emails showed him mentioning people who have “contributed pretty generously”, taking time out of campaigning to meet donors, and generally working closely with people he knew had donated to the party.¹²⁸ Similarly, John Key, then the party’s finance spokesperson, was described in 2005 as “meeting with loads of big donors in Northland ... (full day and night)”.¹²⁹

The party was not unaware of the problems such activities could create. Board minutes from 2004 note that “a certain degree of cautiousness should be exercised in the Leader’s direct participation, as any direct fundraising activities could be misinterpreted”. However, the need to fundraise, and the desire of potential donors to meet leading politicians, triumphed over such considerations. As a party staffer told Brash in 2003, a successful funding pitch to wealthy supporters was “a hundred times more important than us inching our poll ratings up 1–3% at the moment”.¹³⁰ Fundraising practices at other parties during this era are less clear, but donors interviewed for this report spoke of having dinner with Helen Clark while she was prime minister, a practice confirmed by former party fundraisers.

During this era, new ways to sell access to politicians and party officials also sprang up. National, for instance, launched a President’s Council in 2004, in which \$10,000 would give members “personal access to the President [of the party] to voice any political issue” and “the opportunity to meet the Leader of the National Party and other National Caucus members”.¹³¹

Such schemes were, however, considerably less controversial than other events at the time, notably spending practices during the 2005 general election. Third parties, in particular the Exclusive Brethren and the ‘Fairfax’ racing lobby, spent hundreds of thousands of dollars on pro-National campaigns, without declaring their allegiance publicly but with the party’s tacit knowledge and support.¹³² This was controversial partly because, under the laws at the time, such spending should arguably have been added to National’s tally, which would have led it to significantly overspend its campaign cap. The police, however, declined to prosecute. Several parties were separately found to have overspent during the campaign – most notably Labour, which spent around \$400,000 of parliamentary funding on a policy manifesto and pledge card, despite the ban on parliamentary funds being used for electioneering. Again, no-one was prosecuted.

The second MMP era

The controversies over donations and campaign spending led the Labour government to attempt to reform political finance following the 2005 election. For a time, ministers even contemplated bringing in more extensive state funding, according to contemporary Cabinet papers examined for this report. Parties would have received two dollars for every vote up to 20% of the total vote at a general election, and one dollar for every subsequent vote up to 30% of the total.¹³³ This idea had been mooted as far back as the 1986 Royal Commission on the Electoral System, which, despite being sanguine about the influence of big donors, argued that the state should fund political parties – in particular to support their day-to-day operations and policy development – as part of the public good.

It is not clear why Labour’s state-funding proposal did not make it into legislation, though some reasons can be adduced. First, documents seen during the writing of this report show that Labour’s internal polling revealed significant public opposition. Just over half (55%) of those polled said political parties should “have to raise all their own funds by appealing to their supporters”, while just 17% disagreed with that statement. Only 27% said they “wouldn’t mind the party I vote for getting public funds to help with its campaign expenses and running costs”, while 41% disagreed. Second, one interviewee with knowledge of the relevant events argued that New Zealand First, a junior partner in the coalition, had adamantly opposed such a use of taxpayer money.

128 Hagar, *The Hollow Men*, p.40 and pp.233–37.

129 Hagar, *The Hollow Men*, p.219.

130 Hagar, *The Hollow Men*, p.215 and 221.

131 Hagar, *The Hollow Men*, p.222.

132 Hagar, *The Hollow Men*, p.x.

133 Cabinet Policy Committee, Review of the Electoral Finance Regime.

While eschewing state funding, the legislation Labour ultimately introduced, the Electoral Finance Act 2007, still sought to regulate donations more strictly. The act aimed in particular to impose stricter controls on fully anonymous donations. Anyone donating more than \$1,000 to a party had to tell that party their name and address. If not, the donation had to be returned or given to the Electoral Commission, less \$1,000. However, although the *party* had to know the identities of people donating over \$1,000, those identities had to be disclosed to the *public* only if someone donated over \$10,000, as before. Meanwhile, the identities of donors to *candidates* had to be declared publicly if they gave over \$1,000, a much lower limit. The problems created by this inconsistency are discussed later.

In addition, the act introduced controls on overseas donations, capping them at \$1,000. Waitemata Trust-style practices were outlawed: the act required anyone bundling up donations to identify ‘contributors’ if the latter had provided an amount over the \$10,000 threshold for public disclosure. The act also required parties to disclose any donation over \$20,000 within 10 days of receiving it, rather than being able to wait to put it in their annual donations return. This meant that, for instance, a \$100,000 donation on 15 January 2009 would be disclosed within the month, rather than in May 2010 (some 14 months later), when the annual donations returns for 2009 would be published.

But although the act was designed to limit fully anonymous donations, it also introduced a new scheme for donors wishing to anonymously donate above the \$1,000 cap. Known as ‘donations protected from disclosure’, or simply as the protected donations regime, the system allowed fully anonymous donors to give large amounts, but only if they sent them via the Electoral Commission. Because the commission would then bundle them up with other donations and send them all, stripped of any identification, to the relevant party, it was thought that this would ensure genuine anonymity. And if parties really did not know the identity of the donor, the donation could not lead to undue influence. This argument can, however, be challenged. And it is noteworthy that such donations are now limited to \$52,563 per donor per election cycle, while the most a party could receive through the protected donations regime (per cycle) is \$350,420 (figures as of 2022). If such donations are genuinely anonymous and thus unproblematic, it is not clear why they should be subject to limits, especially as other donations are not.¹³⁴ This point is explored in later sections.

In the event, the Electoral Finance Act 2007 proved immensely controversial, albeit the objections were largely to other elements of the legislation. Most contentiously, the act sought to limit spending by third parties (and political parties) for the whole of an election year, not just the standard three months prior to polling day. This provision, although not unknown overseas, was something even organisations generally sympathetic to Labour felt would be an undue restriction on free speech. The 2007 act was accordingly repealed in early 2009 by the new National-led government. The donations-related provisions, however, were largely reinstated in the subsequent Electoral (Finance Reform and Advance Voting) Amendment Act 2010. Minor changes were made: the threshold for public disclosure of the identities of donors to candidates was raised from \$1,000 to \$1,500, and for donors to parties from \$10,000 to \$15,000. The limit on overseas donations was also raised to \$1,500. The disclosure of large donations within 10 working days was retained, though the threshold was raised from \$20,000 to \$30,000.

But although these were minor decreases in transparency, the 2010 act also introduced one pro-transparency requirement: it required parties to report aggregate information on donations under \$15,000, as described above. This meant that, for the first time, the public had near-complete information on the amounts that parties received in donations, the sole exception being the value of donations under \$1,500 from people known to the party. (As above, these will soon have to be disclosed under upcoming law changes.)

In addition to the donation reporting requirements, the 2010 act maintained limits on parties’ election campaign spending. It also maintained the 2007 act’s introduction of limits on third-party election spending by groups such as trade unions, campaign organisations, business associations and charities. Today, these rules require third parties to register with the Electoral Commission if they plan to spend more than \$13,200 during an election campaign, and to keep spending under \$330,000.¹³⁵ In response to the controversy around the 2007 act, however, these limits apply only during the standard three-month period before an election.

134 Anderson and Chapple, *Patterns of Political Donations*, pp.6-7. Also: Electoral Commission, *Party Secretary Handbook*, p.32 and Electoral Commission. (n.d.). *How to donate*. <https://elections.nz/guidance-and-rules/donations-and-loans/how-to-donate/>.

135 New Zealand Parliament. (2020). *Limits on election-related spending begin*. <https://www.parliament.nz/mi/visit-and-learn/parliament-in-election-year/limits-on-election-related-spending-begin/>.

With the exception of tighter limits on overseas donations introduced in 2019, and further changes in legislation being debated at the time of writing, this system of regulating political finance has remained in place to the current day.

Scandals accelerate

Despite these attempts to better regulate political finance, the pace of donations-related scandals appears to have accelerated in the last decade. To what extent this is a function of increased attention to donations is hard to determine. These incidents include favours being granted to donors, the selling of access to MPs and ministers, and repeated attempts to conceal donors' identities.

Even as the Labour-led government was introducing its 2007 legislation, it was caught in a controversy surrounding the decision by one of its ministers, Shane Jones, to approve citizenship for party donor Bill Liu, against the advice of officials.¹³⁶ Then in 2008, another minister, Winston Peters, was formally censured by parliament for failing to declare a \$100,000 donation from billionaire Owen Glenn.¹³⁷

Controversies continued under the National-led governments from 2008. In 2014, Act MP (and former National minister) John Banks was convicted of filing a false donations return when contesting the Auckland mayoralty in 2010. He was found to have declared a \$50,000 donation from controversial businessman Kim Dotcom as 'anonymous', even though he had asked Dotcom for a donation and even explained how it could be made anonymously. Banks was later acquitted on appeal after the Crown's claim he had explicitly discussed donation splitting with Dotcom was found to be faulty.¹³⁸ Banks also declared a \$15,000 donation from Sky City as 'anonymous', despite evidence from Sky City that the company had given him the money directly.¹³⁹ Also in 2014, National minister Maurice Williamson lost his portfolios after intervening in a police investigation into party donor Donghua Liu. Four years earlier, Williamson had lobbied for Liu to be granted citizenship (again, against officials' advice).¹⁴⁰

By this time, National had developed the Cabinet Club, a scheme with similarities to the earlier President's Club. In this case, the system was designed to give donors, who reportedly paid up to \$1,000 each, access to ministers and MPs at a series of informal lunch and breakfast events.¹⁴¹ The party insisted ministers were there as MPs, not in their ministerial capacity, but this distinction was widely questioned, and did not in any case address concerns about paying cash to access MPs. Moreover, when Labour later established its own version, confusingly also called the President's Club, it sent out at least one invitation for members to a dinner event with "the Finance Minister, Hon Grant Robertson", suggesting MPs were indeed attending in their ministerial capacity. This was seen as particularly serious, as ministers have key decision-making roles and are supposed to be especially careful about being influenced, or seen to be influenced, by vested interests.¹⁴²

Further controversies continued throughout the 2010s, including an investigation into the use of fundraising auctions by former Labour leader Phil Goff when he was running for the Auckland mayoralty. Goff's 2016 auction fundraising return included \$150,000 from the sale of a book signed by Chinese leader Xi Jinping, but did not disclose the purchaser's name.¹⁴³ No charges were laid, but questions continued to be asked about such fundraising, especially concerning Labour's use of art auctions. The party would sell artworks at auction, but frequently put the sale price down as a donation from the artist not the purchaser, in an apparent attempt to conceal

136 Controller and Auditor-General. (2012). *Inquiry into citizenship decision*. <https://oag.parliament.nz/media/2012/citizenship>.

137 Technically, the censure was by the House of Representatives. Young, A. (2008). *Peters: I'll leave it to the voters to decide*. https://www.nzherald.co.nz/nz/peters-ill-leave-it-to-the-voters-to-decide/RRD4J6AC7Q3EL3AFH7WTNOQXVI/?c_id=1&objectid=10533833.

138 Otago Daily Times. (2015, May 19). *Case against Banks thrown out*. <https://www.odt.co.nz/news/national/case-against-banks-thrown-out>.

139 New Zealand Herald. (n.d.). *Banks trial: 'No memory' of cheque from SkyCity boss*. <https://www.nzherald.co.nz/nz/banks-trial-no-memory-of-cheque-from-skycity-boss/LLKGPWP56THJT43P4POVXNPWFU/>.

140 Vance, A. (2022). *Blue Blood*, Harper Collins, p.120.

141 Newshub. (2014, May 6). *Paying 'club' gets access to National MP*. <https://www.newshub.co.nz/politics/paying-club-gets-access-to-national-mps-2014050616>. Small, Does Cabinet Club buy influence?

142 Rutherford, H. (2018, Jun 8). *Prime Minister says fundraiser where 'Finance Minister' was guest did not breach Cabinet rules*. <https://www.stuff.co.nz/business/104568491/prime-minister-says-fundraiser-where-finance-minister-was-guest-did-not-breach-cabinet-rules>.

143 Owen, C. (2022, April 7). *Serious Fraud Office closes investigation into Phil Goff's election expenses*. <https://www.stuff.co.nz/national/crime/300561038/serious-fraud-office-closes-investigation-into-phil-goffs-election-expenses>.

the latter's name.¹⁴⁴ The party now says it has tightened up its processes, and that a market valuation is obtained before sales. That portion only of the final auction price is attributed to the painter, and the rest to the purchaser.

Foreign donations also became a source of controversy, after National received \$150,000 in 2019 from Chinese billionaire Lin Lang. He legally avoided curbs on donations by non-residents by routing the money through a Chinese-owned but New Zealand-based firm, the Inner Mongolian Rider Horse Industry.¹⁴⁵ Later that year, the Labour-led government introduced a law claiming to ban foreign donations over \$50, but which did not close the loophole Lang had used.¹⁴⁶

Separately, questions began to be raised about numerous National MPs who declared no candidate donations except those from their party, leading to suspicions that donors were supporting specific MPs but disguising this by routing donations through the party headquarters.¹⁴⁷ Other recent controversies included the Green Party's refusal to return a donation from a donor later convicted of animal cruelty, and Labour Minister Stuart Nash's refusal to pay back nearly \$25,000 in donations received from forestry and timber companies shortly before he became Minister of Forestry. In the most recent case, charities associated with the Māori Party politician John Tamihere are under investigation for providing his election campaigns with hundreds of thousands of dollars in no-interest loans, in apparent breach of the Charities Act.¹⁴⁸

All such incidents have been eclipsed, however, by two court cases in which widespread concealment of donations was alleged.

The New Zealand First Foundation case

This trial, which concluded in July 2022, heard clear evidence that the Foundation, which was set up as a fundraising vehicle for the New Zealand First political party, received nearly \$700,000 in what were *prima facie* donations. Most of it was in amounts over \$15,000, the givers of which would legally have had to be named if they had paid their funds directly to the party. Many of the givers believed they were in fact giving to the party, and the Foundation used the amounts given to pay the party's bills. The funds given were clearly, in substance, political donations.

The defendants were, however, acquitted, in part on the technicality that donations are defined in law as amounts given directly to a party or to people "involved in the administration of the affairs of the party", and the defendants were deemed to be not involved in administering said affairs (or, at least, not in the capacity in which they received the sums involved). This ruling apparently opened the way for enormous sums – including those coming from foreign entities – to be given to New Zealand political parties in total secrecy (although, at the time of writing, the government was moving to close that loophole).

Moreover, the donors' own testimony showed they had deliberately split large donations into smaller tranches, and had those tranches 'given' by associated persons and entities (including companies and trusts they controlled), in order to keep them under the \$15,000 threshold for public disclosure. (Since the Foundation was not, in fact, disclosing the donations anyway, this precaution was unnecessary, but the donors did not know that.) This appears to breach the intent of the Electoral Act (section 207LA), which aims to prohibit such donation-splitting; it also appears to be an attempt to illegitimately reduce the public's knowledge of who is funding political parties. It is not clear why the Foundation donors were not prosecuted; it may be that the Act's injunction that donations cannot be split amongst two or more "bodies corporate" somehow leaves a loophole, or that they escaped prosecution in exchange for providing evidence.

Also concerning was the fact that the donations to the foundation came from industries that stood to benefit from decisions made by New Zealand First MPs. As has previously been noted, the party received large

144 Wright, M., Flahive, B., and Pasley, J. (2017, August 20). *Artworks used to funnel secret donors' contributions to the Labour Party*. <https://www.stuff.co.nz/national/politics/95891686/artworks-used-to-funnel-secret-donors-contributions-to-the-labour-party>.

145 Walls, J., and Jancic, B. (2019, August 27). *'Against the spirit' of the law: National under fire over \$150k donation*. <https://www.newstalkzb.co.nz/news/politics/prime-minister-jacinda-ardern-says-nationals-150k-donation-was-against-the-spirit-of-the-law/>.

146 Cooke, H. (2019, December 3). *Andrew Little's foreign donations ban is good politics, terrible lawmaking*. <https://www.stuff.co.nz/national/politics/117906977/andrew-littles-foreign-donations-ban-is-good-politics-terrible-lawmaking>.

147 McKenzie, P. (2021, Jun 3). *Politics rife with 'dark money'*. <https://www.newsroom.co.nz/pete-mckenzie-politics-rife-with-dark-money>.

148 Nippert, M. (2022, September 28). *Charities regulator probes John Tamihere campaign funding*. <https://www.nzherald.co.nz/business/charities-regulator-probes-john-tamihere-campaign-funding/TABPXQFXR673KSOTEPTTFEAZX1/>.

donations from the racing industry, and its leader, Winston Peters, was later made racing minister for the second time in his political career. There is no evidence that his decisions as a minister were influenced by the donations received. However, the secrecy concerning the donations could itself give rise to a suspicion in the public's mind that they had led to undue influence – and, as previously stated, even the perception of undue influence can be corrosive to trust in the democratic system. Furthermore, other politicians have expressed their belief that donations to New Zealand First did in this way influence politics. Green Party co-leader James Shaw, for instance, has argued that they shaped New Zealand First's decision to oppose a capital gains tax.¹⁴⁹

A further issue of concern is that weaknesses in the Electoral Act limited the charges that could be brought against the defendants. Failing to transmit donations to a political party is, of course, contrary to the act. But because there is no specific offence or penalty associated with this failure, the Serious Fraud Office (SFO) could not charge the defendants with it. Failing to transmit donations to the Electoral Commission is also an offence, but the person who would have been prosecuted is the party secretary. In this case, the secretary appears to have been an innocent party, unaware of the Foundation's true activities.

Instead, the defendants were charged with obtaining by deception under the Crimes Act. This did not fit the situation especially well. The Crown's case was that the Foundation had obtained money claiming that it would be used for the party, but then spent it without the knowledge of the party's board, secretary and leader. However, the real issue was not that the Foundation spent the money on things opposed to the party's purposes, or which party officials might have prevented, had they known. On the contrary, the issue was precisely that the Foundation used the money to *support* the party; that is essentially what made the sums given to the Foundation political donations, and thus created the need for them to have been declared. In one sense, the Crown's charge claimed the exact opposite of what really happened. Consequently, one of the clearest lessons from this case is the need for electoral law to be strengthened.

The Labour and National case

In this trial, individuals were found guilty on charges relating to donations to National but not to Labour. In both cases, however, there was clear evidence of attempts to conceal donors' identities.

The court case revolved around three Aucklanders: wealthy businessman Yikun Zhang and his associates, twin brothers Colin and Joe Zheng. The three were found guilty of concealing a \$100,000 donation from Zhang to National by splitting it into sub-\$15,000 tranches and routing them through the bank accounts of other members of Auckland's Chinese community, who were falsely listed as the donors. Colin Zheng was also found guilty of concealing Zhang's identity as the donor of another \$100,000 to National, and Joe Zheng was convicted of lying to the SFO. During the case, the SFO noted that Zhang had eagerly sought, and received, an official Honour from the government, something the agency argued might have influenced his desire to donate to National without declaring his name. National MPs' text messages, presented in court, showed Zhang's desire for an Honour was being mentioned in the same breath as intentions to solicit donations from him. Moreover, the trial heard evidence that National MP Jami-Lee Ross had actively solicited donations (contra the notion that MPs are kept separate from such activities). He had also procured for Zhang dinners with party leader Simon Bridges that ordinary citizens would not have got. However, Ross, whose allegations of wrongdoing sparked the trial, was cleared of all charges, his self-incriminating testimony being disregarded by the judge owing to the state of his mental health at the time the wrongdoing occurred.

Zhang and the Zheng brothers were also accused of concealing a \$35,000 donation to Labour. Zhang had paid \$60,000 for five artworks that Labour had valued at \$25,000, the balance counting as a donation that should have been publicly disclosed in his name. However, this payment was again disguised, this time by claiming that five members of Auckland's Chinese community had bought one artwork each, their payments each amounting to less than \$15,000 and therefore not needing to be publicly disclosed.

In court, several of those individuals testified that they had never bought the artworks concerned. One even went so far as to say: "I'd rather burn money than donate to Labour."¹⁵⁰ The defendants were cleared of these

149 Coughlan, T [@coughlthom]. (2022, June 23). [Tweet]. <https://twitter.com/coughlthom/status/1539791771064217601>.

150 Murphy, T. (2022, July 28). *Alleged art buyer: 'I'd rather burn money than donate to Labour'*. <https://www.newsroom.co.nz/alleged-donor-id-rather-burn-money-than-donate-to-labour>.

charges, however, because the SFO had failed to independently value the artworks sold. This raised the (admittedly unlikely) prospect that the paintings might have been worth over \$45,000 and therefore Zhang's donation would have been less than \$15,000 (the difference between his payment and the value of the artworks) and need not have been declared. Two individuals connected to Labour were also cleared of charges, on the basis that, although they had clearly provided false statements about the donation, they might simply have been misled by Zhang and the Zheng brothers. As in the New Zealand First Foundation case, the (alleged) offenders were prosecuted not under the Electoral Act but under the Crimes Act, presumably for the same reasons as set out above.

Lessons from the above cases

The most obvious conclusion to be drawn from the above trials is that concealment of donor identities, via donation-splitting, may be widespread. In both cases, individuals were engaged in determined and systemic attempts to keep hidden the names of the originators of what were, either legally or in substance, large donations. This represented an explicit attempt to prevent the public from understanding the sources of political parties' funding and check any undue influence gained thereby.

Moreover, there is no good reason to think that the instances identified in these trials are isolated. If the cases resulted from a rigorous examination by audit bodies of all the donations coming into New Zealand political parties, that argument might be more convincing. The above wrongdoing, however, was not detected by any regulatory body, and came to light thanks only to whistleblowers (anonymous New Zealand First officials, in the first trial, and Ross, in the second). Unless these individuals blew the whistle on the only instances of donations fraud in recent decades, which seems unlikely, there will be many other instances going undetected.

This is all the more likely given the Electoral Commission's virtually non-existent powers to investigate donation fraud. Currently, all the commission can do is check that the returns supplied to them by parties are internally consistent – that, in other words, the numbers within those returns match each other. The commission has no ability to check whether the returns actually match the evidence of the party's own internal records, nor whether those records themselves appear reliable. The commission can compel neither documents nor witnesses.

Along similar lines, it is striking that, despite the long list of donation-related scandals above, just one, the most recent, has resulted in a successful prosecution. It is often argued, albeit speculatively, that this failure owes much to the reluctance of enforcement bodies like the Police and the SFO to prosecute donation cases, due to their intensely political nature.¹⁵¹ Some commentators also cite wider problems with regulatory bodies in New Zealand, such as their lack of experienced investigators and resources (compared to overseas counterparts). Both the New Zealand First Foundation case and the Labour and National case suggest the country's electoral laws and system of enforcement are in need of significant repair.

Finally, it is no reassurance that so many investigations into donations fraud have been launched in recent decades. While some believe this shows the system is working well, Simon Chapple makes a convincing counter-point, arguing that this is "akin to drawing the conclusion a high number of murder investigations indicates it is wonderful we have a law against murder the police so clearly enforce".¹⁵²

151 Transparency International New Zealand, *New Zealand National Integrity System Assessment*, 2013.

152 Institute for Governance and Policy Studies, *How to drop big money from NZ politics*.

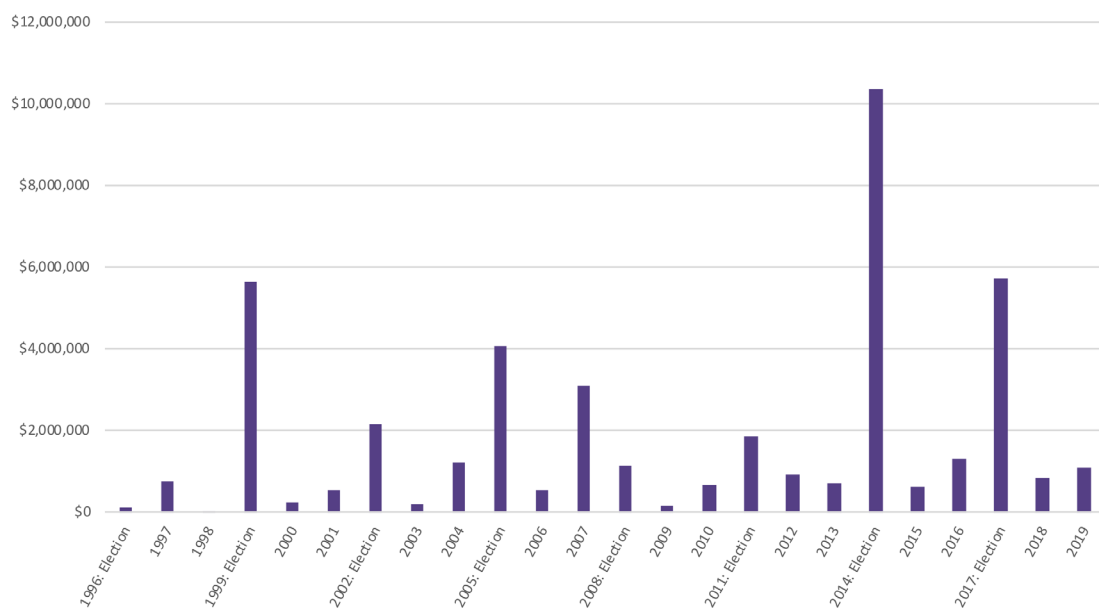
5. Donations: data and dollars

The above account of individual donations-related scandals can be complemented by data about the wider patterns of donations in New Zealand. These have recently been charted by Victoria University researchers Thomas Anderson and Simon Chapple, who compiled records for named donations from 1996, the beginning of the MMP era of regulation, to 2019. They also examined the aggregate data on amounts given under \$15,000, which has been published since 2011.

The only caveat to Anderson and Chapple’s work, as they themselves acknowledge, concerns the accuracy of political parties’ returns to the Electoral Commission. As the New Zealand First Foundation court case showed, hundreds of thousands of dollars of what were in substance donations were never declared to the commission. The Labour and National donations trial, meanwhile, demonstrated that donations that were apparently below the threshold for disclosing the donor’s identity had in fact been split up, and should have been declared as much larger sums and with the true donor’s identity attached. In the commission’s data, therefore, both the amounts and their distribution may be inaccurate.

Taking the data at face value, however, Anderson and Chapple’s calculations show that, from 1996 to 2019, roughly \$45 million was given in named donations (those worth over \$15,000 in today’s money). This was equivalent to approximately \$2 million a year: “These are not, by any standards, vast sums of money,” the researchers argue. There was no increasing trend in the volume of donations over time, as shown in Figure 1. This argues against the idea that donations produce ‘supernormal’ returns for those who give them; otherwise, presumably, more and more donors would make them. Donation amounts were, however, higher in two periods that immediately preceded increases in regulatory scrutiny (leading up to the 1996 election and the 2007 electoral law reforms, respectively), suggesting a desire on the part of either donors or parties to avoid such scrutiny.¹⁵³

Figure 1: Total value of donations in excess of the anonymity thresholds, 1996–2019¹⁵⁴



153 Anderson and Chapple, *Patterns of Political Donation*, p.11.

154 Anderson and Chapple, *Patterns of Political Donation*, p.12. Figure 1 recreated by the authors from original dataset provided.

In Table 2 below, which examines parties' receipt of named donations, the 'small parties' include the 'millionaire' vehicles that received large sums from their founders. National received more than Labour, although not by the kind of margin that might be popularly supposed. New Zealand First's figure is of course distorted by its failure to disclose donations. Conversely, the Green Party's total substantially comprises payments from its MPs (colloquially known as tithing). These payments are important when assessing the party's resources, though not when examining its vulnerability to corruption by external interests.

Table 2: Total amounts received in donations over \$15,000 (in 2020 dollars), 1996-2019¹⁵⁵

Small parties	\$13,515,921
National	\$12,874,196
Labour	\$10,179,265
Green Party	\$4,683,571
Act	\$3,459,939
NZ First	\$388,918

On the surface, there does not appear to be a large Left-Right funding imbalance. However, since 2011 (when more detailed records began), donations of less than \$15,000 have gone disproportionately to National (\$14.9 million) as opposed to Labour (\$4.1 million), creating a significant imbalance over this period. Between 2011 and 2019, National and Act raised \$23.2 million, while Labour and the Green Party raised just \$11.8 million, only half as much.

Table 3: Donations received below and above the \$15,000 donor identity disclosure threshold, 2011-2019¹⁵⁶

Party	Below threshold	Above threshold	Total
National	\$14,896,256	\$4,425,835	\$19,322,092
Labour	\$4,108,852	\$2,566,280	\$6,675,132
Act	\$2,081,581	\$1,831,983	\$3,913,564
Green Party	\$1,944,703	\$3,187,508	\$5,132,211
NZ First	\$876,528	\$64,778	\$941,305

It could be seen as surprising that National's greatest advantage has come from donations below, not above, the disclosure threshold. However, National is gaining especially large sums in the bracket \$5,000-15,000 – that is, relatively large donations that are well beyond what most New Zealanders could realistically afford to give, but which nonetheless remain anonymous to the public. As Anderson and Chapple note: "Either there is an exogenous [i.e. externally driven] growth in the number of people willing to donate to National, National are getting better at tapping such people, or National is increasingly avoiding the disclosure threshold, by means which can only be speculated on."¹⁵⁷ As above, the recent court cases show that some of the supposedly 'under \$15,000' sums will indeed be much larger amounts split up in order to avoid disclosure.

Missing from these totals are, of course, donations worth less than \$1,500 from people known to the recipient party, which do not have to be passed on to the Electoral Commission. It is possible that these sums, if declared, would substantially reduce the apparent funding imbalance, given Labour's reputed success in generating such

155 Anderson and Chapple, *Patterns of Political Donation*, p.15.

156 Anderson and Chapple, *Patterns of Political Donation*, p.16.

157 Anderson and Chapple, *Patterns of Political Donation*, p.17.

small donations. This seems unlikely, however. For instance, in response to National's announcement in early 2022 that it had generated \$1.8 million in donations, mostly from Rich Listers, Labour launched an appeal to supporters that netted just \$160,000.¹⁵⁸ People interviewed for this report also downplayed Labour's fundraising ability. Without full data, of course, this conclusion remains speculative.

In addition, looking beyond Anderson and Chapple's work, the Left-Right funding imbalance appears to have further widened in recent years. Partial figures since the 2020 general election show that National and Act have raised at least \$5 million, much of it from Rich List donors, while Labour and the Green Party have raised just \$800,000, or one-sixth as much. The imbalance is now particularly marked in donations over \$30,000.¹⁵⁹ This suggests the imbalance is not just an artefact of the period 2011-17, when National was in government and especially popular. Combining all the data currently available, since 2011 National and Act have raised \$32.4 million and Labour and the Green Party \$15.0 million. These figures are up to October 2022 for donations over \$30,000 but only to December 2021 for donations under that amount. Again, this may understate the centre-left's fundraising.¹⁶⁰

When it comes to the source of donations over \$15,000, since 1996 businesses have given over \$6 million (the bulk to National), more than four times the sum given by trade unions (\$1.4 million). Moreover, the vast majority of the sums given by private individuals have been generated through ownership of businesses rather than by working for wages and salaries, further reinforcing the donor dominance of capital over labour.¹⁶¹ As might be expected, the bulk of business donations go to National, while virtually all union ones go to Labour. Because of the financial weakness of modern trade unions, however, and the relatively small sums they give, even Labour gets more donations from businesses than from unions.

Two-thirds of Labour's business donors, however, also give to National. "Corporate donations to the Labour Party to a large extent do not appear to be an endorsement of their perceived centre-left ideology," Anderson and Chapple argue. It is "perhaps not irrelevant here", they add, that all the firms giving to both major parties "are identifiable large businesses, operating with a degree of monopoly in an environment where either government purchasing or government regulation is an important business consideration". Accordingly, the purpose of cross-spectrum donations, including most of Labour's business funding, "is probably not to pursue an ideology. Rather their purpose more likely relates to a quid pro quo attempt to gain access to politicians, to endeavour to enhance business profitability in some fashion."¹⁶²

Finally, little use is made of the protected disclosures channel, where, as above, sums can be routed through the Electoral Commission so that even the party does not (in theory) know the donor's identity. This suggests the vast majority of donors want the party to know who they are, and may therefore expect something (however minor) in return.

158 Labour Party, personal correspondence, 4 May 2022.

159 Vance, A. (2022, October 23). *National and ACT build \$5m election war chest, Labour and Greens trail in fundraising*. <https://www.stuff.co.nz/national/politics/130216885/national-and-act-build-5m-election-war-chest-labour-and-greens-trail-in-fundraising>.

160 Max Rashbrooke, unpublished calculations, October 2022.

161 Anderson and Chapple, *Patterns of Political Donations*, p.14.

162 Anderson and Chapple, *Patterns of Political Donations*, p.21.

6. The view from inside the system

During the research for this report, we interviewed over 30 people with participant or expert knowledge of the political finance system. These included: eight donors to political parties across the spectrum; two trade union national secretaries; several fundraisers; past and present party presidents and general secretaries; past and present members of Parliament; three leaders of political parties; and a former prime minister. The experts we interviewed included a leading researcher on the Canadian political system; a group of officials responsible for Seattle’s Democracy Voucher programme; journalists with experience reporting on donations; and regulators.

The interviews with political participants were tilted towards the centre-left, perhaps because that side of politics is more concerned about political finance, but still display a reasonable spread of political opinions. The totals were as follows: centre-left 18, centre 1, centre-right 9, neutral/external experts 6. We do not provide further identifying characteristics of people we interviewed. All interviews were anonymous, and in some cases providing details of party affiliation or gender could be sufficient to identify someone.

Below, we outline responses first from donors. We then briefly discuss fairness, a topic commented on by both donors and others. Finally, we cover broader issues that arose from other interviews.

Donors’ views

Motivations to donate

Most donors wanted to support the party with which they were ideologically aligned. As above, one donor described themselves as “slightly far-right”, and said they would not donate if a party “is not more pro-business”. They openly described the advantage of donating as making it easier to arrange meetings with ministers. In addition, some donors were interested in being part of the political process, either generally or specifically with reference to supporting a particular event, such as the current National Party fundraising drive.

While the donors all claimed to not gain influence from their donation, one suggested that it was “probably inevitable” in smaller parties that individual donors could, and would, have greater influence. Five of our eight donors referred to the development of closer relationships from their donations. For example, we were told that donors “might have had an extra lunch or dinner – but it didn’t drive policy”, that “you get wonderful opportunities, e.g. cocktail parties”, and that there is “more opportunity to have a direct meeting, but that doesn’t mean that you will influence the decision”. One donor, while insisting they enjoyed no influence, added: “John Key lives nearby but we only talk in generalities. Helen Clark came to my house a couple of times. David Seymour has popped in a couple of times and had a chat about life.”

Another donor described the party relationship in simple terms: “They are nice to me, and I’m nice to them.” Yet another noted: “I’m surprised by how grateful the party is. The size of the donations is very small by my standards these days, but they are treated as though they are enormous sums of money.” It is noteworthy that donations of tens of thousands of dollars were, to this donor, “very small” sums.

Donation thresholds and limits

We asked donors about their views on possible mechanisms for making donations more transparent or limiting the amounts given.

All donors believed transparency was important. Some argued that if larger donations (those over \$15,000 as per current policy) were disclosed and made publicly visible, transparency was achieved. For example, one donor advised: “It is good that there is a requirement to declare donations. If there is influence being applied then it is more obvious. It is protection against influence, in a way.”

The donors were also, in principle, comfortable having their names in the public domain. However, there was a view that donors in general had strong motivations to keep their donations under the limit where they become public. It was also argued that disclosure of names and addresses could deter some donors. Five donors noted the potential negative outcomes. One said they were “acutely aware that governments do take it out on [individuals] who donate to their opponents”. Another said he “didn’t like the opprobrium that comes to people who donate to parties”, and one commented that he had received “nasty/insulting stuff” on social media. Another donor commented that donating made his political preferences public, meaning he was not “under the radar [where] you can do what you want”. Potential reputation risk was also cited. Conversely, two donors believed the disclosure of names could in fact encourage others to donate. “You could say it is an ego-stroking exercise, but it does encourage other people,” one said, while the other noted that “some people like to make themselves known and look important”.

At a more general level, views about thresholds and limits generally aligned with donors’ ideological positions. Most of the left-wing donors supported full disclosure of donations and identities. But even on the left there were mixed views on upper limits for donations. One argued that there need only be full disclosure of the funding’s origins. They also believed that if donations were capped “[people] will find some means of getting around it”. Similarly, several donors noted the potential to work around the rules, arguing that “people can disguise their [donations] through trusts and other devices”.

Those on the right generally felt the current settings were appropriate or close to appropriate, and did not support, for instance, lowering the threshold for identity disclosure to \$1,500. One commented: “\$1,500 is a very low number. The vast majority of people do not want to contribute to political parties. Raising \$2–3 million is difficult if you are raising \$1,500 at a time.” Another echoed concerns about evasion: “If you prohibit large donations, then you encourage people to find a way around.” One commented: “From a practical point of view, it [the disclosure threshold] shouldn’t be too low. Anything below \$5,000 doesn’t need to be reported. \$5,000 won’t buy much.” This did raise the prospect, however, that a larger sum might “buy” something.

Fairness

We spoke to both the donors and others about the fairness of donations. Not all donors agreed that it was fair they were able to donate while others could not. One donor noted a “real problem with people who accumulate a lot of money supporting the systems that have allowed them to accumulate a lot of money”, while another commented that they did not think “that it is right that rich people can distort democracy”.

When it came to non-donors, a former MP commented: “There are obviously people who think that if you have money you can pay for yourself to get into Parliament – and if you don’t have money then you shouldn’t be there.” Such inegalitarian positions were supported by others, who felt that a measure of bias in the system was acceptable. Asked about imbalances in the kinds of people who can donate, one former party leader said: “Do I want a 19-year-old with an NCEA level one qualification having the same influence as a university professor or a successful businessman? I don’t much care if the university professor or the businessman has more influence on the political process in some kind of way than someone who has no particular experience.” Another interviewee said: “The fact that some can promote their position more than others doesn’t worry me.” Conversely, one current MP noted that “people agree that it isn’t fair that you can buy [time] talking to a minister if you are wealthy”.

It was generally felt that parties on the right received higher levels of private donations, although some believed this was mitigated by the union donations received by parties on the left. One trade union national secretary argued that unions were “one of the few structures that can compete with a lot of the high-net-worth donors or corporations that come to the right of politics”. However, as above, in practice union donations are significantly outweighed by business ones.

Non-donors’ views

The discussion below captures the main points raised by non-donors.

Anonymity

It is sometimes proposed that all donations should be channelled through the Electoral Commission (using the protected disclosure mechanism) to ensure anonymity and eliminate the potential for influence.¹⁶³

¹⁶³ Hehir, L. (2020, March 3). *A step by step guide for compulsory anonymity in political donations*. <https://thespinoff.co.nz/politics/03-03-2020/a-step-by-step-guide-for-compulsory-anonymity-in-political-donations>.

However, no-one we spoke to supported such a system. One former party president stated that they had “seen too many conversations where people want to do things, but don’t want to be known for it ... don’t try to engage with an intent and not let people know that is your intent”. A current party secretary commented that they “did not trust that sort of system to reliably deliver”.

Implications of publicity

We previously noted donors’ concerns about the implications of being publicly named. Similar concerns were raised by a former politician and two former party presidents. One identified “real consequences from making donations in a small society, for example, with reference to getting jobs”. A former Labour president said that, speaking from experience, business people did not want to be identified with their party: “They didn’t want to be associated with radicalism.” A current party leader reiterated the claim that people might not donate if the threshold for disclosure was lower, as they would fear retribution from the government in the form of being denied contracts and other sanctions. They were, however, unable to produce evidence of such repercussions.

Influence

Like donors, most non-donors believed donations did not result in specific influence. However, again like donors, they testified to the buying of access and building of relationships. When asked about the motivation behind a particular company donation, one former party official advised it was for “personal access”. More generally, business donors valued “the leverage of access that is provided as a payment essentially for donation”. Our interviewee also described fundraising dinners where tables were purchased by firms and ministers might sit at that table for 20 minutes or so. In their view, “Lobbying isn’t improper – but you don’t know if there is something that might follow from that.” One former MP, while defending fundraising schemes such as the Cabinet Club or the President’s Club, said: “You are saying to local people that you can get your voice to the minister in a more personal setting... that is buying access in a more personal way. They [the clubs] are amazing for networking.”

On similar lines, one current party leader downplayed the possible influence gained at fundraising dinners, claiming that attendance “probably buys no more than a tenuous connection with a politician – vague familiarity, name to face, etc”. However, they agreed that donations could raise the influence of wealthy or business donors, as political parties were cautious about making decisions that negatively affected donors. Separately, one former party staffer mentioned hearing general discussions about the need to moderate policy lest it put off potential donors. In a similar vein, a former fundraiser told us that donations had long resulted in donors’ appointments to government-controlled boards and, further back in the past, adjustments to regulations like import quotas.

We also heard accounts of individuals attempting to give party leaders envelopes of cash at public events. These were always presented as isolated incidents in which the (intended) recipients acted honourably. For instance, one former party leader told us: “A person came up to me at a public meeting, when I was party leader, and as I made to leave, offered me an envelope stuffed with banknotes ... I tried to reject it. He insisted on giving it to me, so I put it in my pocket but gave it to my press secretary, who took it straight to the party’s headquarters ... I don’t know how much was in the envelope.” Such incidents were presented as being interesting rather than concerning. Yet even if nothing untoward happened, the potential for it to do so is clear.

While we heard no evidence that donations directly bought policy influence, there was a clear perception that it did or could. One interview subject advised that although they felt no pressure to address donors’ interests, “the possibility is always there”, and New Zealand “should get ahead of it” by toughening donations regulation. In the view of another, “Not everyone wants to donate for no reason – some think they are buying power or influence.” A former party secretary noted that, “If you were outside looking in, it would be possible to conclude they [donors] were buying influence.” In a similar vein, a current MP suggested that “for politicians, it would actually be simpler if all significant donations [i.e. those over \$1,500] were disclosed, so that no-one could claim a hidden motive for... connections”. A former party president believed the rash of current scandals stemmed from MPs being involved in fundraising: “If I [a donor] hand an MP money, that MP could feel some form of obligation.” Many interviewees held a strong view that the separation of MPs from fundraising was necessary.

Another former party president noted the importance of having a large membership and donation base, describing the current domination of funding by large donors as “a dilemma”. In their view, “It’s unfortunate that the bulk of funding isn’t coming from ordinary New Zealanders.” Separately, the argument was made that “the weaker the

membership base, the more centralised the decision-making, the more vested interests [matter]". In addition, two interviewees raised the issue of "people from countries with different cultures around bribery" who may "misunderstand the New Zealand way of doing things". This view was held by those in parties that were strongly pro-immigration.

Finally, a couple of former fundraisers argued there was now a small but noticeable group of donors who expected influence from their donations. One former president noted a growing volume of appeals for corruption, citing people giving money because they wanted something in return. "Some donors had a clear expectation of influence. They were a small group, but they were there. People who gave money because they wanted a particular piece of legislation or a particular permission to emerge somewhere – either at the local or national level." While our interviewees insisted they rebuffed such appeals, they accepted that, in a poorly policed system, others with lower standards might feel free to act differently.

Finally, one former party leader connected the above concerns with New Zealand's post-1984 increase in economic inequality and a decline in volunteering that left many organisations increasingly reliant on wealthy donors: "Money is getting worse in every area of society. All sorts of organisations are now scrambling for money. It brings about negative results."

Impact

Several people noted the potential for reputational damage if a connection was made between donations and policy influence, one interviewee observing that "public opinion drives a lot of behaviour". A former MP advised that she "received advice about distancing herself from the money [and] never asked for money. The party might ask me to talk to someone and hear their concerns, but I never then asked that they make a donation, or if they ever did." Some interview subjects insisted party leaders were kept away from direct knowledge of funding and did not get involved in approaching people for funds. In the words of one interviewee, that separation "is important – you don't want the reality or the perception that individual donors are buying policy". Similarly, a general secretary said they had "worked pretty hard to make sure that ministers don't go around asking for big donations ... This is to make sure they are keeping things clean. It is important to protect the brand." Conversely, however, other interviewees claimed it was impossible to entirely shield ministers from donors, and evidence presented above suggests this separation is not observed. See also below for a fuller discussion.

Donation thresholds and limits

Like donors, several non-donors acknowledged the constraint of the current \$15,000 disclosure threshold. One described it as a threshold "a lot of people don't want to cross as they do not want their name in public". Interviewees also noted the incentive the \$15,000 limit generates to split donations, for instance, within a company where four or five directors donate just below the limit, ensuring the company's donation is not made public.

Again like donors, other interviewees had mixed views on changing the disclosure threshold, although in this case the views did not clearly follow party ideologies. Some felt that the current threshold of \$15,000 worked well. Others felt that a much lower limit, closer to \$2000, was desirable.

When it came to donation limits, interviewees were nervous about banning large donations, and questioned how these donations would be replaced. However, not all of them were convinced by the argument that donations were a form of free speech, and that limiting them would infringe freedom of expression. One interview subject noted this was "endlessly argued in America all the time", but counterposed the example of driving in New Zealand, where "we turn onto the left side of the road – you don't have a free right to decide. In other words, there are limitations on free choice – and there are any number across society. It is a bit simplistic to say that they [donations] are inherent rights and that [caps] would take them away."

Cost of campaigns and operations

Several people commented on the high cost of running an election campaign. One interviewee from a small, non-parliamentary party estimated they needed \$800,000 across an election cycle if they were to realistically aim to get above the 5% threshold: \$100,000 a year to employ someone to do administration, including fundraising, and \$500,000 during the campaign, most of which would be online advertising. For a larger party a campaign could cost \$3-4 million, and their funding across a political cycle could be as much as \$15 million.

We heard from several people that parties are in a near-constant political campaign mode. This changes the timing requirement for funds, moving away from primary fundraising in the year of an election campaign and towards an ongoing requirement for funds. One current general secretary advised that campaigns were getting bigger and greater funds were needed to run a professional election campaign. A similar view was raised by a former party president, who said: “The cost of a campaign is growing. It is becoming more important that campaigns can be funded. Democracy requires this.”

Who should donate?

We received a range of views on who should be allowed to donate. Many believed overseas donations should be banned outright. One former MP argued that overseas donors have “no skin in the game ... it is citizens of this country who have to live with the outcome”. Another interviewee commented: “The minute you let in foreign capital, you are opening up a Pandora’s box. This is our system and you have to be able to manage it within our system.” However, one trade union national secretary noted the potential for evasion: “It isn’t hard to funnel money from overseas to New Zealand bank accounts that could then be channelled to political parties. And this could be done within the rules.”

Some interviewees believed only natural persons should be permitted to donate, on the basis that if donations came from companies or other entities, there was no mechanism to know where the money was really coming from. A current MP advised that a ban on corporate donations was unlikely to prevent fraud, arguing that if someone “is going to bypass laws they can probably find a New Zealander in whose name they can make the donation”. Moreover, one party general secretary argued that corporate entities and other organisations had a valid role to play. This was echoed by one trade union national secretary, who expressed a preference for “corporates donating [rather] than high net worth individuals”.

Transparency

While no one disagreed that transparency was desirable, there was a clear tension between disclosing the names of large donors and not wanting to constrain potential donors by impinging on their individual privacy. It was thought potential donors could be deterred by the prospect of having their address as well as their name made available on the Electoral Commission website. There was also a view that people should be able to participate at least to a small extent without their details being divulged, although this could be achieved in other ways, such as through party membership.

One former fundraiser said they had returned donations because they believed donation-splitting had taken place – although they took little comfort from this action, as they did not know how many other similar donations went unreturned and did not think that auditors or regulators would detect it.

Finally, while it is outside the scope of this report, several people noted concerns about funds provided to other political actors, such as the backers of the 2022 occupation of Parliament grounds. This concern extended to the use of foreign funds being used for online attack advertisements.

Problems with the current system

Around 10 of our interviewees noted broader problems with the current system. Sometimes they were general observations. One described the current system as “a patch on a patch on a patch”, and argued that a dominance of large private donations led to “no concept of the public interest, no concept of the importance of internal debates, no contestation of ideas, all those things that make for good policy making”.

Other observations were more specific. One concerned the difficulties officials faced trying to precisely apply the rules. A former party president argued that the rules “cannot be understood by people who are in the fundraising process” and described them as “almost like an accident waiting to happen”. They advised that they “sometimes found out about things that I didn’t know about that sailed close to the wind”. A senior party official also noted there was “lots of potential for mistakes for new parties”. This raises questions about who is liable for penalties under the act, a subject we return to in chapter 10.

Several interviewees noted the level of administration and compliance work required. This was particularly problematic for a smaller political party that might have volunteers undertaking some of these tasks.

This heightened concerns that lowering the disclosure threshold for donations would increase the compliance requirements. We were also advised of additional costs incurred in compliance, for example auditors' fees for examining annual returns.

As above, interviewees raised concerns about the potential for foreign influence and the ease with which the current limit on overseas donations could be circumvented. Many also noted it was relatively simple to carry out donation-splitting.

One MP described the awkwardness of wanting to legitimately help donors by, for instance, introducing them to ministers, but then having to question their own ethics and whether they were being motivated by the donation to make the introduction. Fundraisers also worried that donors could "leverage" their donations into advantages like access to politicians.

Several interviewees were concerned by the Electoral Commission's relative lack of powers, and suggested it needed greater resources. One interview subject said the commission "need to be well resourced and well supported to be totally independent". A former party president believed the commission should be "more active" and tougher, arguing that people "need to be afraid of it".

State funding

Many interviewees were open to extra state funding but concerned about potential trade-offs. Most people we spoke to noted the need to raise large amounts of funds. In the words of one general secretary, "There are demands from the community to do things – and these things cost money. ... Democracy is poorly served if political parties can't inform the public about what they are offering before they vote on it." Donations were also seen as a kind of accountability and performance measure. One former party president argued: "If you aren't able to raise funds by way of the membership's fundraising and donating efforts, that's one of the best barometers of how you are faring." Similarly, one party leader advised that the need to attract donors "can be a good check on whether you have a good plan / proposition". They noted that in smaller, self-funded parties, "You only have to convince one person – and that is where the problem is."

Conversely, one former senior official advocated for a simplified donation system, along the lines of the Canadian system: "The [Canadian] level for disclosure [roughly NZ\$200] is sufficiently large not to be onerous and sufficiently small to be difficult to combine in a way to get influence." A current senior official advocated for tiered dollar-per-vote state funding, where the first few percentage points have greater weighting. They felt this would appropriately scale public support while balancing a party's overall importance to the democratic system. Increased support should be provided either to smaller parties earlier in their political life or to those that were not large incumbents. One mechanism to avoid maintaining the status quo was to average votes over the previous three terms, thus avoiding potential fluctuations in term-by-term funding.

Those who were open to extra state funding were also generally open to capping large private donations. A former senior official proposed that if there were a state funding system, donations should be limited to small amounts from natural persons. Small donations were widely seen as positive, but as one former party president stated, "more at the level of a gesture – at the level of \$1,000 or \$1,500 – where people can signal a view with no attempt to corrupt the process". One donor felt that state funding would allocate money or other resources "on something that was more democratic".

Those who supported extra state funding believed it could:

- mitigate, to some extent, the negative consequences from the current need to raise large sums of money, such as the perception of corruption: "It would be fairer to have donation limits and state financing of political parties – to hold down the power of the business interests";
- minimise risk, "because raising money to run elections – quite an expensive business – puts everyone at risk that they shouldn't be. There are interactions – whether you like it or not";
- support new or small parties: "[New Party] is an example. Why shouldn't it be able to have influence? Where does a group like [New Party] apply for funding?";

- promote ideas: “It is a legitimate role for the state [to ensure] groups that declare their interests [can] resource their interests in the contest of ideas”;
- improve transparency: “It’s better to be more transparent by having levels of public funding and explaining what those funds could be spent on”; and
- minimise fundraising: “It takes a lot of work away from the parties – and they can focus on what they should be doing: policy, debating etc.”

Not all interviewees supported increased state funding. While there was broad support for the election broadcasting allowance, more extensive state funding raised several objections. These included:

- the potential to game the system: “Whatever government was in power would tilt the system so they have more”;
- the view that it would be a poor use of taxpayer funds: “Why should the taxpayers pay these people good money to do a well-paid job? People should have to work if they want to be parliamentarians and show themselves to the people”; and
- the potential to dilute membership: “It diminishes the incentive on parties to engage with members. “The decline in party memberships was a concern for several interviewees.

More broadly, interviewees were concerned to prevent a state funding system from unduly benefiting incumbent parties. Some also stressed the need to get broad political agreement to such a policy, to avoid its being immediately revoked by an incoming government. Others, however, were more optimistic. In the words of one former prime minister, “People say it could be a waste of money – but saving the integrity of the system is worth any sum of money.”

Summary

Our interviewees advocated a wide range of positions, ranging from near-total abolition of private donations (and therefore comprehensive state funding) to a defence of the current system. Nonetheless, they all saw a public interest in well-functioning political parties. And while they did not agree on the best mechanism for funding them, there were some commonalities.

First, it was important to ensure parties were appropriately funded. Second, there should be transparency of funding and minimisation of opportunities to work around existing transparency rules. Third, anonymity of donations was generally undesirable, except for very small ones. Fourth, while there is minimal large-scale corruption at present, the perception is that it exists; moreover, there are well-known ways to work around the system, which further serves to undermine its integrity. Fifth, while donations may not directly influence policy, there is general agreement that donations strengthen the relationship between political party and donor. This has the potential to feed into policy.

Interviewees also expressed agreement that election campaigns are becoming longer and costs are increasing. They noted concerns that donating to certain parties may have reputational damage or limit opportunities, and beliefs that the compliance burden associated with the current scheme is high, particularly for small parties.

Our main conclusion is that although we did not find (and did not expect to find) a ‘smoking gun’ of donations-induced corruption, we heard enough to be concerned. More generally, our overriding impression was of a fundraising world that was often lacking clarity, a space in which high-net-worth donors, politicians and party staffers mixed regularly and where money was always in the air, even if not explicitly mentioned. Although for some, the amount of time party leaders and senior figures dedicated to large donors was relatively small, in the order of a few hours a week, for others it was significant, probably closer to several days a week. This suggests – in some cases – a process of socialisation in which politicians were disproportionately exposed to, and thus influenced by, donors’ worldviews. This was in addition to the clear ability for donations to purchase access, as above.

7. Public opinion

Recent polling provides insight into the public's views on proposals for tighter regulation of political donations and increased state funding.

Previous polling

Polling since 2016 shows over 70% of New Zealanders have significant or moderate distrust in the system for funding political parties. This figure has remained steady – a surprising finding, in light of the growing volume of donation-related scandals, but perhaps indicative that trust has fallen as low as it can go in this country. It is a concerning finding, at any rate, given the extent to which a democratic system relies on trust.¹⁶⁴

When it comes to donations regulation, 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 would have to be declared if they gave over \$1,000 (69.3 per cent and 64.4 per cent support, respectively). A substantial minority – about four in 10 – 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 per cent and 39.5 per cent support, respectively). Just 17.6 per cent of respondents supported the current system of unlimited donations.¹⁶⁵

These results were striking for their lack of a clear political divide. Contrary to what might have been expected, tough donations regulation was not noticeably more popular on the left than on the right; indeed it commanded widespread political support.¹⁶⁶

When it comes to who should be able to donate, there was majority support only for the proposition that New Zealand citizens and residents should be able to do so (75%). Support was considerably lower – though non-negligible – for donations from New Zealand businesses (46%), unions (30%) and other groups.

Our polling

As previously discussed, polling carried out under the Helen Clark-led Labour government showed the public were largely opposed to the idea of state funding. For this report, we commissioned further such research. Having reviewed the international research on donation regulation, and used the above interviews to seek expert views on strengths and weaknesses in the current funding system, we commissioned research firm Talbot Mills to run two focus groups and a survey of just over 1,000 people.

The online survey, conducted 22-27 September 2022, polled a nationally representative sample of 1,004 people, all aged over 18. The margin of error in its results is $\pm 2.9\%$.

The survey comprised two parts. The first collected people's general views on political parties and how they should be funded, and on the regulation of political donations. The second provided respondents with three possible state-funding options and sought their views on each.

164 Chapple, Duran and Prickett, "Political donations", p.6.

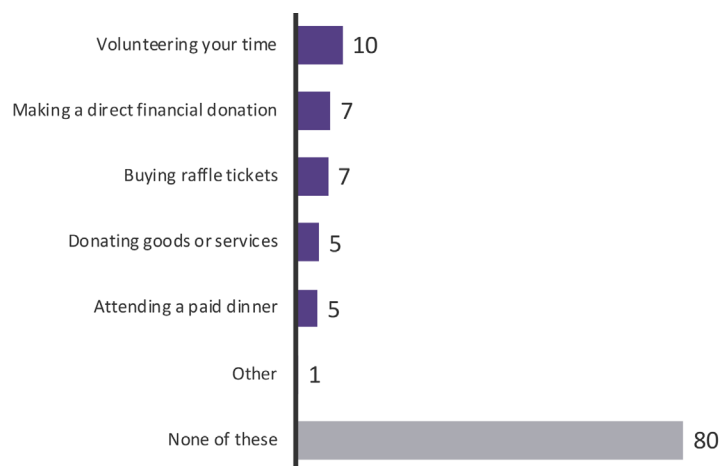
165 Chapple, Duran and Prickett, "Political donations", pp.7-9.

166 Chapple, S. (2021, August 2). Political parties and party funding in the IGPS Trust Survey. Presentation to IGPS / School of Government, Victoria University of Wellington.

Part 1

In response to our initial questions, 80% of respondents said they had never supported a political party (outside of voting), although 10% had volunteered their time, 7% had made a direct financial donation or bought raffle tickets, and 5% had donated goods or services or attended a paid dinner. These data are shown in Figure 2.

Figure 2: Have you ever supported a political party by doing any of these activities?



The public's views on how donations should be managed are shown below (Figure 3). Three-quarters of people thought it was important that parties provide information on the sources of their money.¹⁶⁷

In addition, around half thought it was important that people living outside New Zealand could not donate – and because 33% of respondents were neutral or unsure on this question, only a relatively small proportion (18%) felt this was unimportant.

As above, the 2021 IGPS research had found strong support for allowing New Zealand citizens and residents to donate, with 75% in support and 14% opposed. When it came to foreign-owned businesses being able to donate, the proportions were almost exactly reversed (74% opposed to 14% in support).¹⁶⁸ While this survey did not explicitly ask about foreign individuals donating, taken together the two polls provide strong support for banning overseas donations.

We also asked whether the ability to make donations should be limited to enrolled voters – that is, natural persons rather than legal persons such as trade unions and companies. A large proportion of people were neutral or unsure (40%); however, the proportion of those who felt this was important (41%) was much larger than the proportion who felt it was not important (19%). This could be taken as 41% opposition to, and 19% support for, entities like unions and companies being able to donate. As above, the IGPS 2021 study had found 50% of respondents opposed to, and 30% in support of, trade unions being able to donate, and respective figures of 46% and 36% for New Zealand businesses.¹⁶⁹ The two surveys therefore produce reasonably similar results for trade unions but not for businesses. This difference may result from the stress on *New Zealand* businesses in the prior study and the stronger framing in our study around eliminating all groups except enrolled voters. Regardless, there appears to be strong support for barring donations from at least some entities.

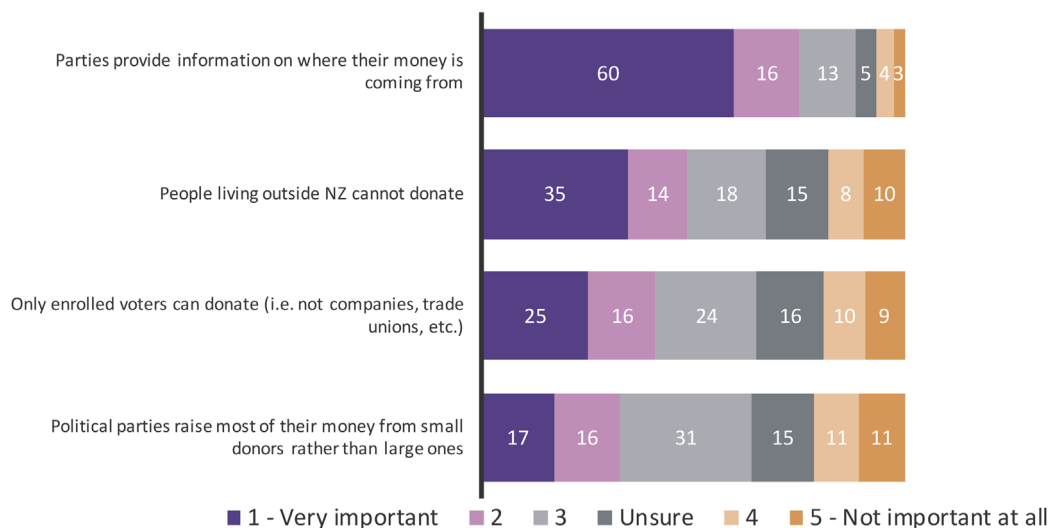
On the question of whether political parties should raise most of their money from small donors rather than large ones, many respondents were once again unsure or neutral (46%). Among those who did have a view, 33% felt this was important, compared to 22% who did not.

¹⁶⁷ Numbers do not add due to rounding.

¹⁶⁸ Chapple, Duran and Prickett, "Political donations".

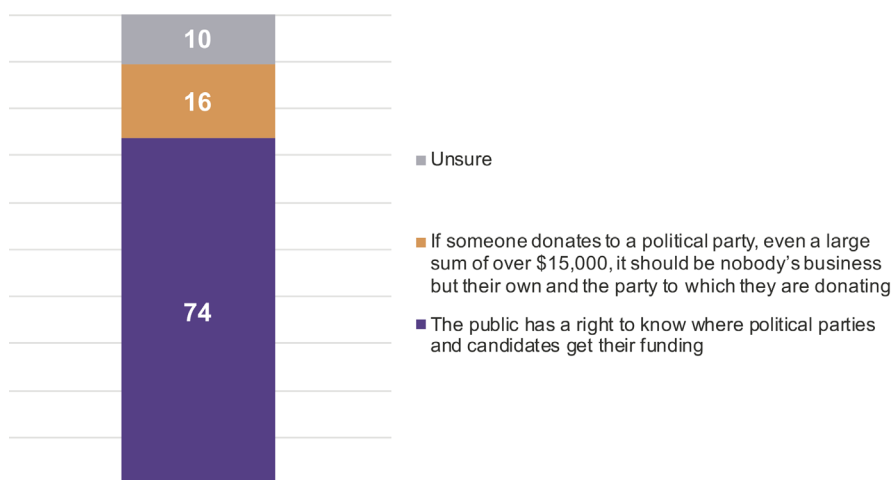
¹⁶⁹ Chapple, Prieto Duran and Prickett, "Political donations".

Figure 3: How important are each of the following to you, in terms of managing political donations?



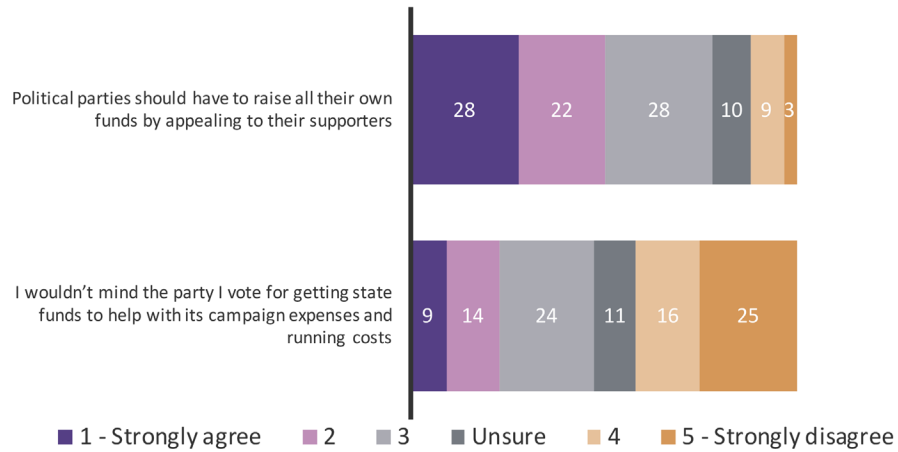
Seeking more detailed views on donation transparency, we then provided two scenarios and asked which one was closer to the respondent’s own opinion. Most (74%) felt more strongly that the public has a right to know where parties and candidates get their funding, as against 16% who felt more strongly that donations were a matter only for the donor and the relevant party (Figure 4). This is roughly consistent with the Clark-era polling, which showed stronger support for transparency than privacy, albeit the questions were asked in slightly different ways.

Figure 4: Which view is closer to your own?



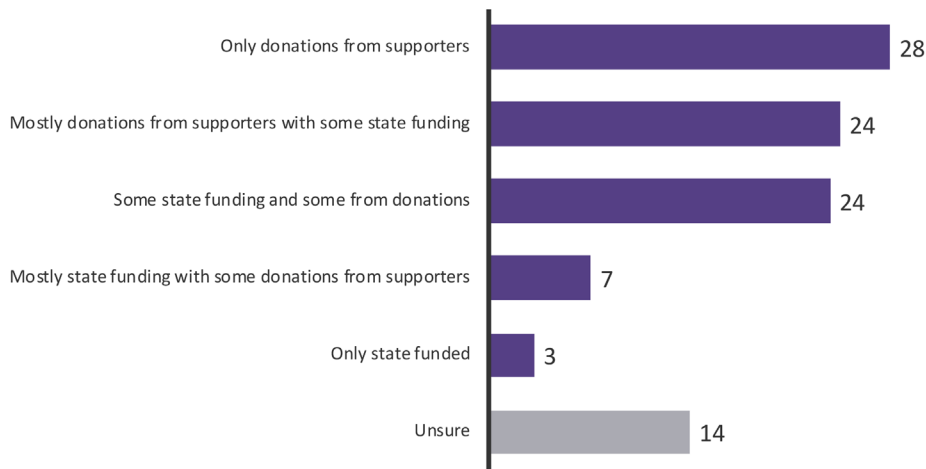
We then asked two separate questions eliciting people’s views on how political parties should be funded: whether parties should have to raise their own funds privately, and whether state funding was an acceptable way to help parties with campaign expenses and running costs. As Figure 5 shows, half of respondents (50%) felt that parties should have to raise all their own funds by appealing to their supporters, while just 12% did not. Despite this emphasis on party self-sufficiency as a general principle, 23% had no objection to their preferred party receiving state funds to help with campaign expenses and running costs. Some 41% disagreed with this approach. Again, a large proportion of respondents were unsure or neutral: 38% for question one and 35% for question two. Overall, these results almost exactly mirrored the responses to the same questions in the Clark-era survey, indicating a stability in preferences despite a further 15 years of donations-related scandals.

Figure 5: How strongly do you agree with these questions?



Digging deeper into people’s views about the sources of party funding, we then gave respondents a choice from a spectrum of private and public funding options rather than the simple binary presented above. As Figure 6 shows, no one option received majority support. The most popular approach (28%) was that parties should only receive funding from supporters, a finding aligned to the responses shown in Figure 5. If, however, the two middle options are grouped together, we find that nearly half of respondents (48%) sought some combination of donations and state funding, though they were divided as to which should be the larger. A further 7% preferred mostly state funding and 3% state funding only.

Figure 6: What is the right balance for where political parties should get their money?



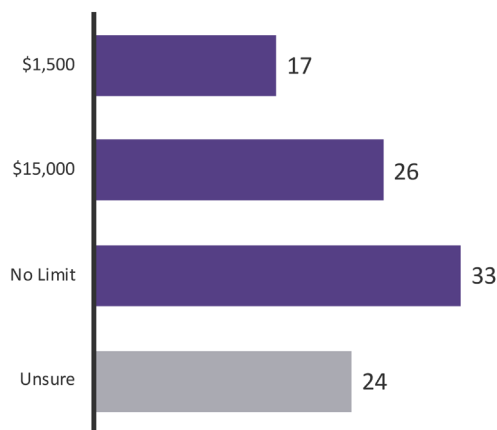
When it came to caps on donation amounts, previous research (as above) had found that 69% endorsed a donation limit of less than \$10,000. Of this 69%, 11.6% felt that people should not be able to donate at all, 32.1% felt the cap should be under \$1,000, and 25.6% felt it should be less than \$10,000. Of the remainder, 13.2% preferred a cap of \$20,000 and 17.6% preferred no cap.¹⁷⁰

The responses to a similar question in our survey are shown in Figure 7. We find higher numbers who preferred no cap (33%, compared to 18% in the prior 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 prior study). These differences may stem from the lack of a ‘total ban’ option in our survey, which in the previous survey not only gave respondents an extra option but may also have ‘anchored’ the responses towards a stricter limit: its presence meant

170 Chapple, Prieto Duran and Prickett, “Political donations”.

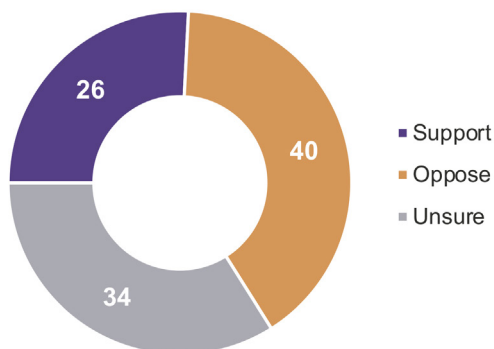
the 'middle' option, which respondents may gravitate towards, was stricter in that survey than in ours. Moreover, we allowed undecided response, which do not appear in the prior survey question. Nonetheless, even our survey indicates that unlimited donations are not the public's preferred option, as a majority of those with a fixed opinion supported a cap of under \$15,000.

Figure 7: Of the following options, what should be the maximum amount a person can donate to a political party?



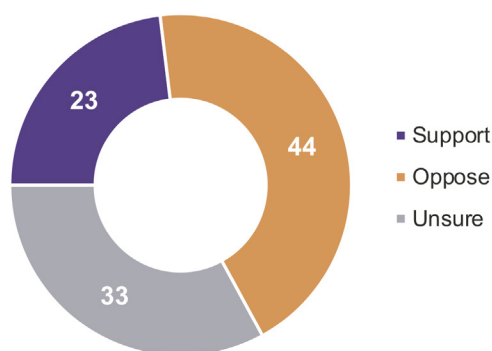
To test for interdependencies between people's views on different elements of the question, we asked if they would oppose or support increased state funding if there were tighter limits on donations. We find that 26% of respondents said they would, while 40% would not and 34% were unsure. These data, depicted in Figure 8, suggest support for state funding is not greatly affected by this corollary.

Figure 8: Would you support or oppose increased state funding if there were tighter limits on political donations?



We then tested respondents' appetite for greater investment in political parties. After explaining that the 2020 election cost the Electoral Commission approximately \$100 million to run, we asked respondents if they would support spending an extra \$5 million a year to help political parties develop and communicate policies and carry out their day-to-day operations. While around one-third of respondents were unsure, those who did respond were more likely to oppose extra state funding (44%) than support it (23%). These results are presented in Figure 9. Again, the provision of extra information or corollaries did not seem to substantially shift views on state funding.

Figure 9: Do you support or oppose spending another \$5 million on parties' policy work and day-to-day operations?



Having given respondents the opportunity to reflect on the trade-offs between limits on donations and increased state funding, we re-asked the question that we presented in Figure 7. There was very little change among the responses: support for a maximum of \$15,000 increased from the original 26% to 28%, support for no limit increased from 33% to 34%, and the undecideds reduced from 24% to 22%.

Part 2

In the second stage of the survey, we presented survey respondents with the three possible party funding options that, based on a survey of international practices, we deemed most suitable to be considered for use in New Zealand (see discussion in later chapter). We started with the following introduction:

Sometimes it is suggested that the state should provide greater funding for political parties to cover operating costs and enable them to develop policy. In order to get this funding, parties would need to demonstrate a base level of public support.

We are going to give you some information on three possible funding options. Please let us know if you would support each of these options. Each option has roughly the same cost of around \$5 million per year.

After that introduction, we first briefly described each option and asked if people supported or opposed it. We then provided additional information on each option and asked if that changed people's position. Table 4 outlines the three options, the initial brief description, and the additional information.

Table 4: State funding options provided to survey respondents

Option	Initial brief description	Additional information provided
Per-vote funding	After an election, parties get \$2 for each vote up to a certain threshold (e.g. 10% of all votes cast), and \$1 for each subsequent vote.	This option provides greater funding, in pure dollar terms, to bigger parties, but a larger amount per voter to smaller parties. It is simple and links parties' funding to their support among voters. It is predictable for parties. It doesn't, though, encourage citizens to participate, or parties to reach out to them, beyond what already happens at elections.
Tax credits	When you make a donation to a political party, the party notifies Inland Revenue, and Inland Revenue refunds you three quarters of the cost (the party being donated to still gets the full amount). The maximum refund you can get is \$300.	This option incentivises people to give modest amounts to parties, at little cost to themselves. They decide where the money goes. Political parties would be encouraged to reach out to a wider range of people. Parties would not be able to predict how much funding they would get, though. And people would have to be able to put up at least a little of their own money in order to get the state subsidy.

Option	Initial brief description	Additional information provided
Democracy vouchers	At the start of each election year, every enrolled voter is sent a voucher worth, say, \$20, which they can spend only by giving it to the political party of their choice.	This system ensures voters control how state funds are handed out. It also encourages parties to engage with voters in order to get their vouchers. The system would give voters flexibility, as they could split their voucher across two parties, i.e. \$10 to each. However, this system hasn't been widely used outside of the city of Seattle, USA. Parties wouldn't find it a predictable source of funding. And people might not know at the start of election year which party they want to support.

We present below the support for each option before and after the additional information was provided. Support for all options dropped slightly on receipt of this information. In each case, many respondents were undecided, and this figure increased following additional information. This may reflect the complexity of political party funding.

Figures 10a and 10b show the responses to the per-vote funding option. Nearly one-third supported it, while nearly one-quarter were opposed. Additional information prompted a 2% drop in support.

Figure 10a: How strongly do you support per-vote funding?

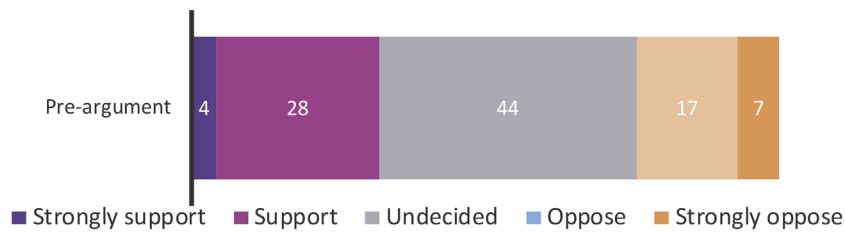
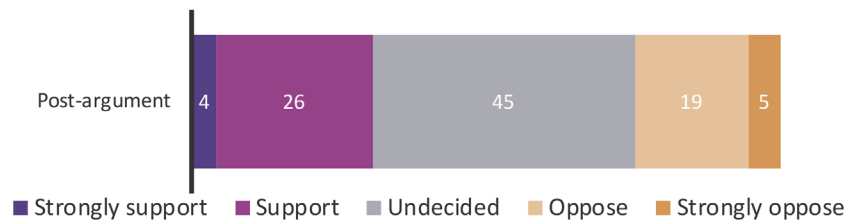


Figure 10b: How strongly do you support per-vote funding (with additional information provided)?



The second option, tax credits, was most appealing to respondents: 45% indicated they would support it initially (note that these numbers may not match those in the figure due to rounding), though this dropped to 40% once the additional information was provided. Opposition likewise fell from 23% to 21% on receipt of the additional information. Undecideds increased from 33% to 39%, reinforcing the hypothesis that respondents found the information hard to process (Figures 11a and 11b).

Figure 11a: How strongly do you support tax credits?

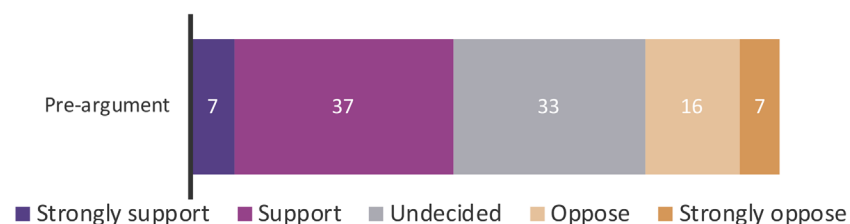
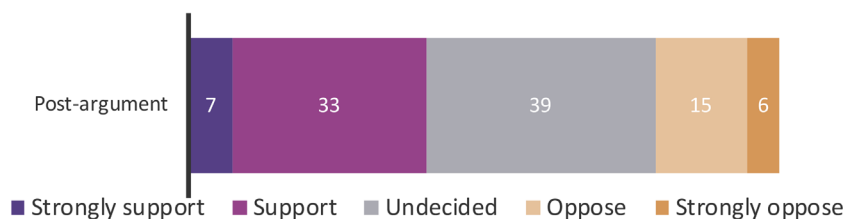


Figure 11b: How strongly do you support tax credits (with additional information provided)?



The final option, democracy vouchers, is a recent innovation internationally, and respondents were less likely to be familiar with it. Nonetheless, 40% supported it in the first instance, though this declined to 34% when additional information was provided. Opposition remained steady at 32%. As with the other two options, undecideds increased, from 28% to 34% (Figures 12a and 12b).

Figure 12a: How strongly do you support democracy vouchers?

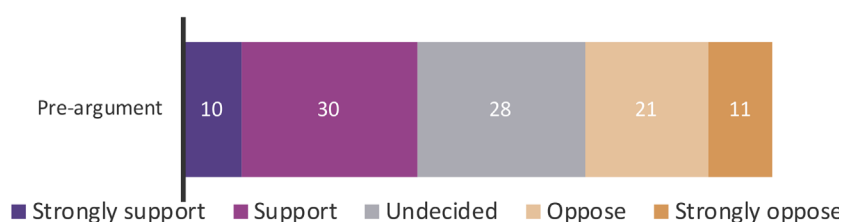
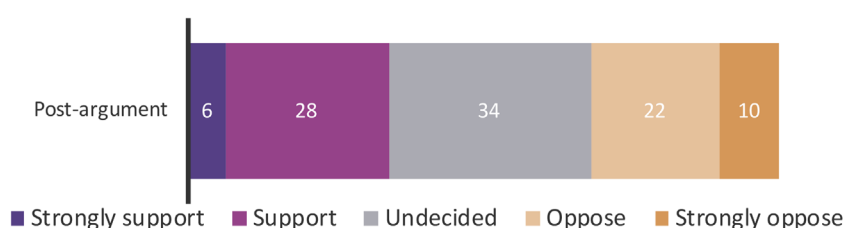


Figure 12b: How strongly do you support democracy vouchers (with additional information provided)?



In summary, a few points are worth noting. For all three options, more respondents supported the proposal than opposed it. This was strongest for the tax credit option, where supporters (45%) enjoyed a 22 percentage point advantage over opponents (23%) in the first instance. Support for each option was stronger than for state funding in the abstract, possibly indicating that people find it easier to grasp, and thus support, more concrete proposals. Conversely, there was a clear trend of undecideds increasing following additional information, noted above. This was most prevalent for the tax credit and democracy voucher options, which both saw 6% increases in undecideds. While the additional information was intended to assist with decision-making, it instead appeared to create confusion or make the respondents feel they did not adequately understand the issue. This highlights the need for clear, straightforward communication to the public for any proposed funding changes.

Our focus groups

In addition to the polling, we ran two online focus groups of participants with a mix of ages, ethnicities, education levels and regional locations.

In response to our introductory questions, participants said that overall New Zealand had low levels of corruption, but money could have an undue influence. “Backroom deals” and the idea that corruption was possible “wherever there’s money involved” were mentioned. Participants had little recollection of political scandals, even though at the time of the focus groups, two political parties were involved in a donations case at the Auckland High Court that had been reasonably widely reported in mainstream media. Few had donated to

a political party, though a couple had made small donations of around \$20. Others had vague recollections of being asked to donate via email campaigns.

Individuals had limited knowledge about the sources of parties' funding and were not confident that they could obtain this information. However, most concluded, following discussion, that the source would be a mix of large donors and party members or supporters. The dominant view was that at least the two major parties would receive most of their funding through a small number of large donors. A few thought this would apply more to National, as a result of their business connections and brand.

Participants thought that minor parties would be more likely to rely on smaller donations from members and the public. They were not sure if smaller parties might get large donations from wealthy individuals or corporates. Participants' main reason to prefer smaller donations from a larger number of donors was their perception that it might remove the risk of a concentration of interests around particular policy or issues.

We then asked participants to write down key principles they felt should underpin a donations regime. Most participants thought transparency was an obvious, "common-sense" principle. One or two justified it with reference to "disclosing conflicts of interest" and "ensuring a disconnection between donation and policy". To others, "transparency" meant knowing how donations were spent, and seemed to be intended as a mechanism to judge party priorities; respondents cited the importance of "keeping things out in the open" and "showing what money is used for". Very few made the connection that a donations regime with increased disclosure might automatically discourage corruption by making influence more traceable – although some raised the need for "oversight" and "policing" of donations by a "regulator".

The next most common requirement was a cap on donations. However, it wasn't always clear whether respondents intended this as a cap on individual donations or (as appeared to be mostly the case) a total cap on what a party could raise. The latter appeared to be popular on the basis that larger parties had an "unfair advantage" as a result of their size and history, and this allowed them to maintain political dominance. Many were aware of the practice and risk of donation-splitting, and also fairly strongly supported caps for big companies and interrelated entities.

A prompt was then shown to participants and a brief discussion was held on each of the following proposals.

Capping the maximum level of donation that can be made

There was fairly strong support for this, with a view that it could "stop the sway from big donations". There were still questions about whether larger donations would just be split and whether this could be effectively policed. Suggested limits varied greatly between respondents and were somewhat anchored by what they expected a campaign to cost. A few went for a limit of \$10,000 but most were clustered around \$50,000 and \$100,000.

Allowing only individual citizens, i.e. not businesses or unions, to donate

Unlike in the survey and prior research, there was not a high level of support for this proposal. Respondents' first impression seemed to focus on small businesspeople or individually wealthy business owners making donations, rather than large corporates. Respondents did show some support for this proposal, on the basis that it "stops companies influencing policy", but this seemed to be much more about the total amount of donation than the entity giving it. There was some suggestion that constraining donations in this way might be "undemocratic".

Ensuring transparency so the public can see who is donating and how much

This was strongly supported. When we asked about potential thresholds, a wide range was proposed, from \$250 to \$20,000, with most clustering around the higher end of this range.

Preserving anonymity of (some?) donors to protect them from judgement

Most participants agreed with this and understood it to be the flipside of the point above. It did not occur naturally to most that harassment or privacy might be relevant. Most seemed to have strong views on "transparency" but softened them somewhat when this issue was raised. There was general acceptance that "donating above some threshold means accepting you'll be in the spotlight".

Preventing offshore influence by banning international donations

As with the survey findings, there was universal agreement on this point.

We then asked the focus group participants about state funding. There was very low baseline knowledge of the issue. However, it was cautiously accepted on the basis that smaller parties needed it. There was no sense of deep opposition to it in principle.

There was no knowledge of how large current state funding was. Prompted with a rough proposal of \$3 million per year, most people did not move from their initial position. There were also mixed views on the need to fund policy development. Respondents were open to the idea that this required expertise, money, and resources. The second group were stronger on the need for policy development, claiming it was the “cornerstone” and “purpose” of politics. Most erred on the side of supporting political parties.

We then presented the focus group participants with the same three options as in the survey, and asked them to score each on a scale of 1-10.

1. Per-vote funding

After an election, parties get \$2 for each vote up to a certain threshold (say 10% of all votes cast), and \$1 for each subsequent vote.

There was moderate support in the first group, averaging around 5, but considerably lower support in the second group, which mostly gave out 2s. There was generally a strong desire across the groups for a diversification of the political landscape, and a belief that state funding should be set up to support that. Those giving this proposal low scores typically cited a belief that small parties would be disadvantaged: “the big will get bigger, the minors will die out”; “it should be more evenly spread out”. Some thought that “big parties already have enough”. These reservations were expressed despite our explanation that smaller parties would benefit to a larger extent, as a proportion of their vote.

2. Tax credits

People donating modest amounts – say, up to \$400 – get a tax credit (i.e. a state refund) for all or most of that donation.

This option was polarising, receiving many very low scores including two 0s, two 1s and two 3s, but also four marks of 6 or higher. Those who liked it cited the potential to get more people involved in donating and appreciated the tie-in to a charitable format that was already familiar. Opponents felt it completely missed the (for them) crucial component of a donation that it should come at some (significant) cost to the donor, “otherwise it’s not a real donation”. One or two flagged that it could potentially “blow out quite quickly” if the refund was high and the scheme was popular.

3. Democracy vouchers

At the start of each election year, every enrolled voter is sent a voucher worth, say, \$20, which they can spend only by giving it to the political party of their choice.

Respondents became preoccupied with the potential mechanism for distributing the vouchers and the bureaucracy this might involve. Scores were again mixed but generally middling. Some thought it might help smaller parties, which was seen as positive. Several indicated they might be unwilling to allocate vouchers prior to having a chance to review party policies; they would prefer to allocate funding very late in the cycle, when they thought they would be better informed. Some assumed the allocation would happen at the time of voting, and supported the proposal’s ability to increase turnout on that basis.

The focus group discussion generally supported our above observation on the complexity of state funding options. Focus group participants could, and did, ask questions about the funding options, but they remained complex for some. A strong view that any option should privilege smaller parties was the other clear theme.

8. International approaches

New Zealand's regulation of political finance can usefully be compared with approaches taken in other jurisdictions. For this report, we have compiled information on how 32 developed countries deploy five key tools of political finance regulation: thresholds for disclosing donor identity, limits on donation amounts, bans on donations from certain entities, limits on election spending, and state funding. The spreadsheet with the complete dataset is attached at Appendix 1.

Inevitably, these data do not capture everything of importance, and must be read with caution. The US, for instance, appears to have relatively tough regulation of political finance, but in practice allows unlimited donations to third parties (often in the form of political action committees or PACs), enabling money to exert enormous influence. Nonetheless the data are a useful comparator.

When it comes to the disclosure threshold, the majority of countries (17) require publication of a donor's identity if they give over \$5,000. (All figures have been converted into NZD to allow easy comparison.) The New Zealand government's proposal to adopt this threshold, in legislation currently before Parliament, is thus in line with international practice. Within that, nine countries go further, mandating disclosure for donors giving under \$1,500; three states require all donor identities to be disclosed. At the other end of the spectrum, five countries require disclosure somewhere above \$15,000, and seven have no disclosure provisions at all.

In terms of setting a maximum annual donation amount, 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), \$2,100 (Canada) or \$4,200 (Ireland). 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.

Countries take varying approaches to banning donations from specific entities. Eleven effectively ban donations from both corporations and trade unions, while a further four ban them only from corporations and two only from trade unions. At the other end of the spectrum, 13 countries, including New Zealand, have no such restrictions.

Election spending limits, the fourth key tool, are in place in 18 out of 32 countries, New Zealand among them.

Finally, all but two countries provide state funding to political parties, although the available data do not always make clear the exact nature of that support, nor the balance between funding for electioneering and parliamentary purposes. Consequently, care should be taken in comparing different countries' arrangements. It seems clear, however, that the most common method of funding is to allocate it based on votes gained at the last election ('per-vote funding'), although many others schemes are deployed. Often countries combine different funding methods. A desire to disproportionately support smaller parties is evident: many countries with per-vote funding make the amounts given larger for the first tranche of votes. Lump-sum payments, which proportionately make a greater difference to smaller parties, are also frequently used. However, many countries insist on a minimum proportion of votes gained, perhaps 1-2% at the last election, before parties can gain state support, presumably to discourage opportunistic party registrations.

While the overall trends are complex, New Zealand is towards the weakly regulated end of the spectrum. Moreover, several of the other countries with relatively weak regulations have significantly lower levels of economic inequality than New Zealand; notable examples include Denmark and Sweden. These countries may therefore be better protected against the undue influence of wealthy donors because they have reduced their economic disparities at source, rather than – to recall a distinction discussed above – needing to create a "blocked exchange" via donations regulation. New Zealand is in an invidious (though not unique) position of having both large economic inequalities (relative to the OECD median) and weak donations regulations.¹⁷¹

171 Perry, B. (2019). *Household incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2018*. Ministry of Social Development.

Australian state regulations

Some countries regulate donations at the state as well as national level. While we cannot survey all such practices in this report, Table 5 demonstrates that Australian states typically regulate donations more strictly than New Zealand does at the national level. Again, all figures are in NZD.

Table 5: Australian state donation regulations¹⁷²

	Disclosure threshold	Annual donation cap	Electoral expenditure cap
NSW	\$1,130	\$7,600 for a political party	\$14m for a party running in all 93 Legislative Assembly districts
Victoria	\$1,200	\$4,800 for each election period (4 years)	None
Queensland	\$1,130	\$4,550	\$110,000 per electoral district
South Australia	\$6,350	None	\$114,000 for each candidate in the state's lower house
Western Australia	\$3,000	None	None

Canadian regulations

In the OECD data, Canada is an especially useful comparator for New Zealand, as a fellow British colony with generally similar political institutions – but a much tougher approach to regulating party funding. All donations over NZ\$200 must be disclosed, and the total amount that can be given to a political party in any given year is approximately \$2,100 per person. Only natural persons can donate, and election spending is limited.

To ensure political parties are not deprived of funds, the Canadian state gives them financial support. The state significantly subsidises small donations, by providing tax credits that effectively reimburse donors for giving sums of up to approximately NZ\$1,600. The credits (reimbursements) are worth 75% of donations up to \$500; 50% of any money given in the band \$500–950; and 33% of anything given over \$950. However, the maximum credit available is \$830. That maximum credit would be obtained with a donation of \$1,640: a \$375 credit from the 75% reimbursement up to \$500; a \$225 credit from the 50% reimbursement between \$500 and \$950; and a \$230 credit from the 33% reimbursement between \$950 and \$1,640. In this scenario the reimbursement works out at roughly 50% overall (\$830 is almost exactly half of \$1,640). In addition, every party that gets over 2% in a general election has half their election expenses reimbursed by the state.

These arrangements reflect a broad consensus across Canada's political parties, one that has endured in some form or another for half a century. That consensus has only been strengthened by incidents such as the notorious early-2000s 'sponsorship scandal' in which donors were found to have been paid large sums of money from state-run 'slush funds'. This led to a further tightening of the rules, including the ban on donations from trade unions and corporations. It also led in 2004 to the Liberals' introduction of an additional form of state funding, per-vote payments. But this did not command consensus support, and was abolished by the Conservatives in 2015.¹⁷³

The results of these state-funding arrangements can be seen in Table 6, which outlines financial information (in Canadian dollars) for Canada's five largest political parties. It covers donations received, donor numbers,

172 Parliament of Australia. (2022). *Election funding and disclosure in Australian jurisdictions: a quick guide*. [https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2122/Quick_Guides/ElectionFundingStates#:~:text=The%20Government's%20proposed%20Electoral%20Disclosure,per%20cent%20of%20the%20vote](https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2122/Quick_Guides/ElectionFundingStates#:~:text=The%20Government's%20proposed%20Electoral%20Disclosure,per%20cent%20of%20the%20vote;); Electoral Commission Queensland. (n.d). Caps on political donations. <https://www.ecq.qld.gov.au/election-participants/state-election-participants/candidates/caps-on-political-donations#:~:text=Between%201%20July%202022%20and,the%20same%20registered%20political%20party>; South Australia Electoral Commission. (n.d.). <https://www.ecsa.sa.gov.au/>.

173 Geddis, *The regulation of election campaign financing*.

election expenses, and election expenses reimbursed. It also shows the proportion of votes each party received at the 2021 general election. Of the parties shown, the Liberals, under Justin Trudeau, currently form the government, and the Conservatives are the official Opposition. Combined with the New Democratic Party, the Bloc Québécois and the Green Party, these parties accounted for 94% of votes received at the 2021 election.

Table 6: Financial information for Canada’s largest political parties (2021, C\$)¹⁷⁴

	Bloc Québécois	Conservative Party of Canada	Green Party of Canada	Liberal Party of Canada	New Democratic Party (NDP)
Total amount of donations ¹⁷⁵	\$2,067,513.18	\$26,493,721.21	\$3,517,724.59	\$18,100,388.57	\$9,231,472.56
Total number of donors ¹⁷⁶	11,322	95,222	18,387	75,814	47,335
Total paid election expenses / total reimbursement of election expenses ¹⁷⁷	\$814,732.36 / \$407,366.18	\$28,862,969.20 / \$14,431,484.60	\$2,446,380.57 / \$1,223,190.29	\$26,161,518.41 / \$13,087,692.63	\$10,307,852.63 / \$5,155,345.89
Proportion of votes received in 2021 election ¹⁷⁸	7.6%	33.7%	2.3%	32.6%	17.8%
Average donation per donor	\$182.61	\$278.23	\$191.32	\$238.75	\$195.02

Several conclusions can be drawn from the above table. First, tougher regulation of donations is not incompatible with parties being well-funded. In an election year, the Conservatives took in over C\$26 million in donations; adjusted for exchange rates and population size, this is roughly equivalent to NZ\$5 million for New Zealand’s National Party. Second, a tough limit on donations, combined with sizeable incentives for small contributions, leads to a situation in which political parties are funded from a wide range of voters. The Conservatives, for instance, had over 95,000 donors giving an average of \$278 each.

We can also look at the funding of Canadian parties over a longer period. The table below shows donations and donors over a four-year election cycle (again, in Canadian dollars). Once more there is a clear trend of parties raising large sums by getting many small donations.

174 All figures are in Canadian dollars. All the data are for 2021, with the exception of the paid and reimbursed election expenses, which is for 2019, as the 2021 election data are not available.

175 Elections Canada. (2022). *Registered Party Financial Returns*. <https://www.elections.ca/WPAPPS/WPF/EN/PP/Index?act=C76&reportOption=1&selectedReportType=11&returnStatus=1&displayIntroduction=False&displayDescription=False>. The Elections Canada terminology is contributions. We have amended this to donations for the purposes of consistency in this report.

176 Elections Canada, *Registered Party Financial Returns*. The Elections Canada terminology is contributors. We have amended this to donors, again for the purposes of consistency.

177 Elections Canada. (n.d.). *Total Paid Election and Accessibility Expenses and Reimbursements, by Registered Political Party – 2019 General Election*. https://www.elections.ca/content.aspx?section=fin&dir=oth/pol/remb&document=table1_19&lang=e

178 Elections Canada. (2021). *Canadian Election Results By Party 2021 (Sept 20)*. https://www.elections.ca/enr/help/national_e.htm.

Table 7: Donations and donors across a four-year election cycle in Canada (C\$)

	Bloc Québécois	Conservative Party	Green Party	Liberal Party	NDP
Total donations (2016-19)	\$3,716,802	\$92,179,331	\$14,935,279	\$67,573,187	\$23,448,032
Total contributors (2016-19)	28,958	405,274	85,625	298,968	130,139
Average donation (2016-19)	\$128.35	\$227.45	\$174.43	\$226.02	\$180.18

Further analysis, presented in Appendix 2, shows that donations typically make up over 80% of Canadian political parties' revenues in non-election years, and over 50% in election years.

Figures 13 and 14 show the relationship between donations and the proportion of votes received in the 2021 Canada election, as well as election expenses reimbursed and votes received. They support the argument, advanced in previous chapters, that large donation amounts and high election spending are associated with electoral success (albeit causal arguments cannot be inferred).

Figure 13: Donations and proportion of votes received, 2021 Canadian general election

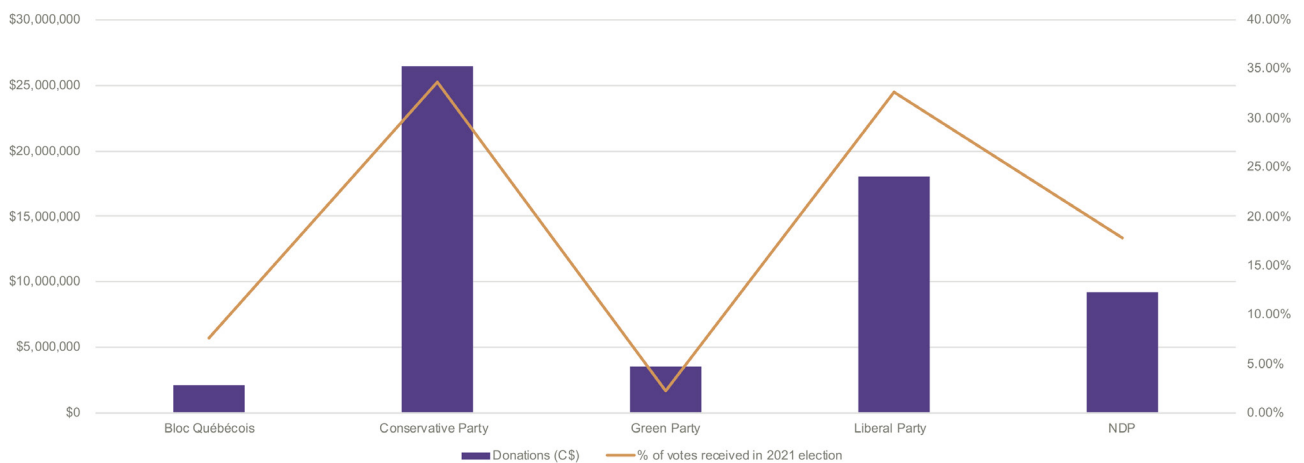
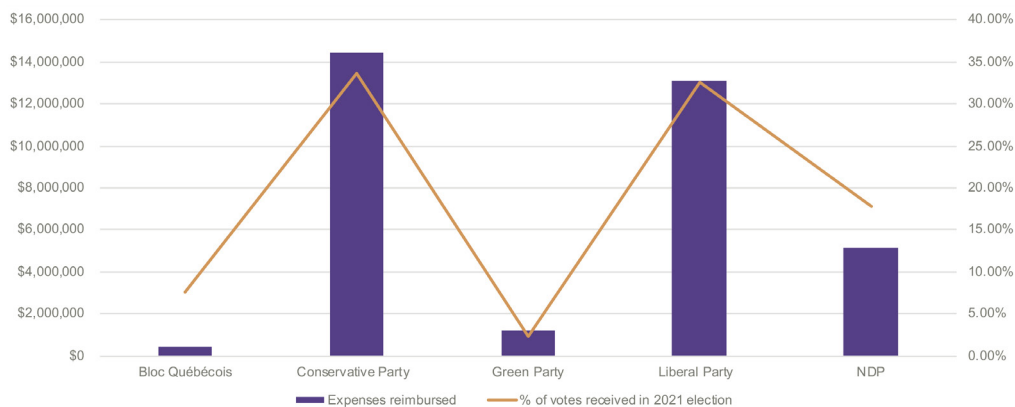


Figure 14: Expenditure and proportion of votes received, 2021 Canadian general election



9. Summary of concerns

The next chapter discusses a potential reform architecture for political finance in New Zealand. In preparation for that chapter, we summarise below the concerns about political finance expressed throughout this report thus far.

There are, firstly, longstanding concerns that political donations can provide donors with greater access to, and potentially influence over, decision-makers. This can bias politics towards the interests of those able to make donations, as some voices are heard more loudly than others. When the wealthy have greater opportunity for access than those who are less wealthy, a fundamental principal of democracy – equality of political influence – is breached. Any reform to the political finance system must respect freedom of expression, but the latter is not an absolute right.

There are further contextual reasons to be concerned about political finance in New Zealand. The costs of campaigning are increasing, and the broadcasting allowance in its current form is not fit for purpose. The nature of campaigns has changed, and parties need to fund online campaigns which often require specialist skills that cannot be undertaken by volunteers. Membership of political parties is reducing, resulting in increased reliance on a small number of wealthy donors. Again, this leaves parties vulnerable to political capture and the public perception that money buys influence. This is all the more so given the large economic inequalities that have arisen in recent decades.

The international literature, moreover, provides evidence that donations do indeed purchase access, with at least an expectation that they will affect policy. In some instances they lead directly to favours such as political appointments and policy changes.

In New Zealand, we have provided multiple examples of donations and other payments to parties resulting in access being granted; donors' own testimonies confirmed this. This is especially significant given that access is a necessary prelude to influence. Moreover, the separation of MPs and party leaders from the work of soliciting donations, if it was ever observed, has comprehensively broken down. By the relevant actors' own account, the fundraising world is one in which donors, party leaders and officials are brought into regular and close contact, significantly beyond the contact most members of the public could hope to have with decision-makers. This opens the door even wider for donations to exert influence. It also creates a strong perception that influence may be exerted, which can itself corrode trust in democracy.

We have compiled a long list of incidents in which donors to New Zealand political parties have been granted favours (albeit a causal link is difficult to prove) and/or parties have gone to immense lengths to conceal the donors' identities. If everything to do with donations were above board, it is hard to understand why concealment would be so prized. The pace of scandals appears to be accelerating. Recent court cases, moreover, have shown hundreds of thousands of dollars of *prima facie* donations being concealed, and resulted in several convictions for donation-splitting activities aimed at concealing parties' sources of funding from the public.

The examples that come to light are unlikely to be a full representation of all cases, as we are generally reliant on whistleblowers or the media to highlight these activities. The historic, and more recent, scandals show that the current system for donations is easily circumvented. Despite multiple 'patches', the existing regulatory system remains unable to effectively address these scandals. In addition, the system creates high compliance costs, particularly for smaller parties.

Drawing on previously compiled data, we have highlighted an imbalance in the fundraising ability of political parties in New Zealand. While some will argue that this is determined fairly by the market for political funding, it undermines the ability of all parties to equally communicate their messages to potential voters. The most recent international literature has demonstrated correlations between spending and votes, with higher fundraising a strong predictor of better electoral success. This is especially concerning in light of the cautionary tales from

the US and elsewhere, in which money becomes a pervasive influence in politics. Moreover, the dominance of business or business-generated donations is marked, far exceeding those from trade unions or civil society.

International comparisons show that New Zealand takes a considerably less robust approach towards regulating political finance than most of its developed-country counterparts. The country's present high levels of thresholds for disclosure of donations and relative ease of donation-splitting combine to minimise transparency. Our opinion-polling and focus-group data show a strong preference for parties to be transparent about their sources of funding, as do previous surveys. Our data also show that people would prefer donations to come from enrolled voters not companies and trade unions, a change which, if adopted, would improve transparency.

In addition, the absence of a cap on donation amounts is unusual in the OECD, and leaves substantial room for access and influence to be obtained. New Zealand is also unusual in its funding approach to political parties, where little assistance is provided to those outside parliament. Our data show that most people would prefer political parties to receive at least some state funding, on top of donations.

One final point, essentially a precautionary principle, is worth considering. Even those who believe, contrary to the evidence compiled above, that money does not wield a great deal of influence in politics should still support precautions to ensure it never can do so. Fundraisers we interviewed testified to a growing volume of corrupt requests. And as Simon Chapple argues, if private funds do corrupt politics, the metaphorical "money horse" will have bolted. "It will [then] be exceedingly difficult to corral," he writes, "given the momentum and ability to warp democratic processes possessed by well-heeled vested interests." The US is, once more, a cautionary tale in this regard.¹⁷⁹

10. A potential reform architecture

Below we outline a system of regulating political party finance in New Zealand that we believe would enhance equality of political influence while preserving freedom of expression. In doing so, it would strengthen New Zealand's integrity provisions against trading in influence (and ideally would be complemented by tougher regulation of lobbying and related issues).

The core of our proposal is a lower threshold for disclosing donors' identities and a cap on donation amounts, coupled with 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. We believe these measures would, in the words of the 1986 Royal Commission, ensure that "money and resources used in relation to political competition enhance rather than detract from the democratic process".¹⁸⁰

These measures are in essence complementary, each strengthening the other, and would ideally be adopted wholesale. Implementing one but not another could have unintended consequences: for instance, limiting large donations without introducing state funding could leave parties inadequately resourced; preventing corporations and trade unions from donating but not curbing large donations would entrench the influence of wealthy individuals.

Separately, in a few instances we have proposed alternative solutions that we believe would still be useful if our more thorough recommendations were not adopted.

Donations thresholds and limits

On the donations side, the key principle is to encourage large numbers of small donations, as a sign of a healthy and politically engaged democracy, while limiting large donations, as a way to prevent undue access and influence, remove politicians from compromising situations as much as possible, and restore public confidence in the system.

One option sometimes proposed is to have no limits on donations but require them all to be made in full anonymity via the Electoral Commission, essentially rendering all donations 'protected from disclosure'.¹⁸¹ If, the argument goes, political parties did not know their donors' identities, no access or influence could result. Apart from the fact this would not address funding imbalances between parties (and indeed could exacerbate them), this idea is not implausible in theory. In practice, however, it is our view, and the view of most of our interviewees, that such a system could be circumvented.

Donors could, for instance, give parties bank statements showing their donations to the Electoral Commission, or donate exceptionally large or distinctive amounts (\$123,456.78, for instance) that might be easily traced back to them even if bundled up with other donations. Commentator Liam Hehir has argued that such stratagems could be countered: for instance, the system could allow donors to ask for their donation back within 20 days, meaning that bank records of a transfer to the commission would not provide definitive proof. Meanwhile, distinctive sums could be rendered generic by the commission's passing on only, say, 97% of the full amount.¹⁸² However, donors could presumably still provide 20 days' worth of bank records; and our interviewees argued

180 The Royal Commission on the Electoral System, *Report of the Royal Commission*, p.183.

181 Hehir, L. (2018). *The case for anonymous political donations*. <https://thespinoff.co.nz/politics/27-10-2018/the-case-for-anonymous-political-donations>

182 Hehir, *A step by step guide*.

that, especially in smaller parties, very large donations (of \$250,000, say) would unmistakably stand out and thus be easily 'claimed' by a donor.

Given that there would be no disclosure whatsoever of donors' names, such stratagems would, if successful, take place in absolute secrecy and thus be largely undetectable. To our knowledge no country has adopted this practice. Moreover, such a system – in which those who seek to gain large financial advantages from political decisions could give unlimited anonymous sums to parties while potentially ensuring those parties knew they were the donor – would seem unlikely to increase public confidence in a system that is already deeply distrusted. Accordingly, we are not in favour of this idea.

Equally, we do not agree with the small number of New Zealanders who would like to see political donations eliminated altogether. Such a move, which has not been attempted in any developed nation, would infringe the freedom of expression that is represented by being able to provide financial support to the political party of one's choice. It is a good general rule that people should be free to allocate their money as they see fit, unless there are strong reasons to prevent them from doing so. Since it is not clear that there is any harm in individuals donating small amounts to political parties, those reasons do not exist.

The evidence presented in this report, however, suggests that larger donations create multiple threats. Accordingly, we propose to sharply limit such donations, and to create much greater transparency for those donations which are still permitted.

Setting the exact level of disclosure thresholds and donation limits is not a precise science but an exercise in judgement. The first issue is the threshold at which a donor's identity should be disclosed. Very small donations, in our view, should remain private, for at least two reasons. First, there is no evidence that in New Zealand very small donations, in the order of \$10-100, lead to access or influence, so there is no need to disclose them. Small donations, in other words, do not contravene the principle of equal political influence. While we cited in chapter three instances of small pharmaceutical-company gifts influencing US physicians' prescribing habits, the directness and power dynamic of that commercial relationship bears little parallel to an ordinary citizen giving a large political party \$50. It merely establishes the point that, in certain circumstances, small amounts can be influential.

Second, individuals have a right to privacy on a range of issues, particularly when it comes to their political opinions. A very low threshold for donations (or indeed requiring total disclosure) would effectively reveal the political membership and views of ordinary New Zealanders in a way that would be deeply unwelcome, especially in a small society. It would also significantly increase the compliance burden on parties.

The threshold for disclosing donor identity might, therefore, be set at a level somewhere above the amount that a committed but not especially wealthy party member could reasonably give. This would suggest a figure in the order of \$20 a week, or \$1,000 a year. This would have some public legitimacy, given it received two-thirds support in the 2021 IGPS polling. However, there would also be justification for setting the threshold slightly higher, at \$1,500. It would align 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 above. It is the level at which the current government originally proposed setting a threshold, before changing it (without compelling justification) to \$5,000. It is also approximately the amount typically paid to attend the kinds of fundraising clubs where, as described above, access to MPs and sometimes ministers can be purchased.

A \$1,500 threshold would, finally, be likely to deter most attempts at donation-splitting. Currently, with the threshold at \$15,000, a donor who wishes to give \$60,000 but (illegally) conceal their identity need involve just four people in the conspiracy. That is, if they split the \$60,000 into four tranches of \$14,999 and pass it on to others to 'give' to the party, no-one's identity will be disclosed. If, conversely, the threshold were \$1,500, some 40 people would have to be involved in the conspiracy, and at that point the chances of being discovered would presumably be so great as to deter most people. 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.

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

The second major question concerns the overall limit on amounts given. As above, two-thirds of OECD countries cap donations at some level, rather than relying on transparency alone. We believe that the evidence in this report, concerning the access and potential influence stemming from large donations, and the growing funding imbalance between political parties, justifies some kind of similar limit.

Although, again, setting the level of the cap is more an art than a science, it can be guided by questions of public legitimacy. Because donations regulations are part of the “rules of the game” under which all political parties operate – or, more formally, the most fundamental constitutional provisions of our democracy – it is vital that they command widespread support from citizens. This is more important than it might be on a more technical (and constitutionally less fundamental) matter where there is a ‘correct’ scientific answer that a government might confidently implement on a bare majority.

Accordingly, 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 above have a cap at \$15,000 or lower. Some of those countries, of course, have significantly stricter limits than we propose here – \$2,100, for instance, in the case of Canada. However, the Canadian limit forms part of a decade-long consensus on political finance regulation, something notably absent in the New Zealand case.¹⁸³ Other figures – \$5,000, for instance – could also be justified, but we feel the legitimacy point remains paramount.

The \$15,000 figure is similar to that recommended by reviews in other jurisdictions. In the UK, for instance, the Committee on Standards in Public Life 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.”¹⁸⁴ (£10,000 is roughly equivalent to \$20,000.) Such a figure also would also help achieve the right combination of transparency and limits. Under our proposals, amounts between \$1,500 and \$15,000 would have their donors’ identities declared, which seems appropriate given that such amounts may lead to access or influence (enough to justify the transparency) but not so much as to be consistently or profoundly troubling. As quoted above, it was the view of one donor interviewed for this report that “\$5,000 won’t buy much”. Even assuming that is true, however, it implies that larger amounts might indeed buy something. That prospect is foreclosed by a donation cap of \$15,000.

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

Although political parties may argue that such stricter donations limits will hamper their fundraising ability, the Canadian example shows that, with judicious use of state funding, this need not be the case. Past evidence suggests, however, that parties will attempt to find ways around such restrictions; this prospect heightens the need for tougher enforcement of political finance regulations, as set out below. Even with a limit of \$15,000 and disclosure of donors contributing over \$1,500, the law on donation splitting may need to be tightened. For example, we note that existing legislation does not seem to prohibit a person with multiple companies donating \$15,000 personally as well as \$15,000 through each company.

Entities permitted to donate

We believe donations should be permitted only from eligible voters: New Zealand citizens and permanent residents aged 18 or over who have lived in the country continuously for 12 months or more at some time.¹⁸⁵ In effect, this restricts donation to (certain kinds of) natural persons, rather than legal persons such as corporations, trusts and trade unions. This is justified partly on the grounds that many core political rights apply only to natural persons, voting being one of the most obvious. Donating to a political party, given its ability (in aggregate) to affect the outcome of democratic elections, seems to us to belong in this category.¹⁸⁶

183 Geddis, *The regulation of election campaign financing*.

184 Committee on Standards in Public Life. (2011). *Political Party Finance: Ending the big donor culture*. Committee on Standards in Public Life, p.4.

185 Electoral Commission. (n.d.). *Are you eligible to enrol and vote?* <https://vote.nz/enrolling/get-ready-to-enrol/are-you-eligible-to-enrol-and-vote/>.

186 As Andrew Geddis notes, “The legitimacy of persons who are not eligible to vote in this country’s elections funding those who are contesting them is debatable, to say the least.” Geddis, “Rethinking the Funding”, p.6.

There is also a practical justification for this step. As long as entities such as corporations and trusts can donate, it will be relatively straightforward for wealthy individuals to circumvent donation laws by channelling sums through the multiple entities they control. Even if, as above, a low disclosure threshold deters some of this activity, foreign individuals could, for instance, circumvent restrictions on overseas donations by channelling their money into New Zealand-based companies, as has previously occurred. And attempts to trace donations are, in a general sense, greatly hampered by webs of interrelated entities. The simplest way to deal with this situation is to limit donations to natural persons. Individuals could, of course, still transfer money to other individuals, but this will generally be easier to detect and, if detected, more obviously illegal.

One consequence of this change would be to end the long-standing practice of trade unions donating to Labour. The argument is sometimes made that since unions are democratic bodies with leaderships elected by members, their donations should be seen as coming from thousands of individuals and thus treated differently to corporate donations. This argument is not without merit. However, it could also be argued that, in the absence of a direct membership vote on a given donation, its democratic nature is questionable. Union donations are, in any case, now relatively infrequent, and some interviewees suggested that, given their constrained financial state, unions might actually welcome the removal of any possibility of donating. From a legitimacy perspective, moreover, cutting off donations from the organisations that traditionally favour National (corporations) but not those that traditionally favour Labour (unions) would not be viable.

It is worth noting that unions also currently contribute by way of affiliation fees. These small per-member levies, paid by unions affiliated to Labour, lie somewhere between membership fees and donations, being (like the former) per-person payments that entitle the payees to certain rights, but (like the latter) being delivered in (relatively) large lump sums without union members expressly agreeing to the payment.¹⁸⁷ In Britain, the Committee on Standards in Public Life noted that to avoid the ban on legal persons donating, unions would have to show that each union member had expressly agreed to the payment being made. At that point it would represent a bundling of thousands of individuals' memberships rather than a donation from a legal entity.¹⁸⁸

Finally, if donations were not to be limited to eligible voters, New Zealand should at least ban donations from organisations with clear potential conflicts of interest, such as companies that hold a current contract with a government agency or are going through a public procurement process.

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

Alternative: Donations from organisations with current or historic potential conflicts of interest are banned.

The Electoral Commission

The commission should be given full investigative powers, including the ability to compel information, in order to more reliably detect donations fraud. This would parallel the powers of the Commissioner of Canada elections, which can investigate any alleged breach of the law and decide on an appropriate course of action.¹⁸⁹ The Justice Select Committee's report into the 2017 election likewise recommended that the commission be given "investigatory, enforcement, and sanction powers".¹⁹⁰ The specific powers would include the ability to investigate electoral offences, obtain documents and other evidence, impose fines, and impose other remedies for minor breaches of electoral law. Major breaches of electoral law would still be prosecuted by bodies such as the SFO. The law itself also needs to be strengthened, as set out below.

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

187 It is sometimes suggested that, donations aside, union fees substantially help Labour. This no longer seems to be the case, however. As far back as the 1990s, Bryce Edwards notes, annual union funding to Labour was down to \$51,000, and senior party officials described it as "a very tiny, tiny proportion of funds – almost insignificant". Edwards, "Political finance and inequality", p.7. Clark-era documents viewed for the writing of this report suggest a similar figure of \$50,000 a year.

188 Committee on Standards in Public Life, *Political Party finance*, p.12.

189 Electoral Commission, *Report of the Electoral Commission on the 2020 General Election*, p.8.

190 Justice Committee. (2017). *Inquiry into the 2017 General Election and 2016 Local Elections*. Justice Committee, at 13.

In addition to these four key recommendations, we recommend a number of other changes to political donation regulations.

Strengthening of the Electoral Act

Recent court cases have revealed multiple weaknesses in the Electoral Act. The government is currently acting to fix some of those, including the definition of donations. However, we believe further amendments are needed. These might include strengthening the penalties for breaching the act to bring them into line with those in the Crimes Act.¹⁹¹ As Andrew Geddis has argued, there should also be a “harm to the democratic process” component taken into account when deciding whether to prosecute an electoral offence.¹⁹² Such amendments could help prevent the unfortunate situation, seen in the major court cases this year, of what are clearly in substance breaches of electoral law being prosecuted instead under the Crimes Act.

Moreover, although the act makes it a “corrupt practice” to split donations in order to conceal the true donor’s identity, these provisions have not been used against certain donors who admitted, in testimony presented in court, to doing just that. As the prosecuting authorities will not comment on the matter, it is not clear why this is so, and the situation should be urgently investigated.

In addition, the Electoral Act should be amended to include a general ‘anti-collusion’ provision, similar to the general anti-avoidance provision used in tax legislation, so that even if actions do not breach specific provisions in the act, they can still be prosecuted if they are contrary to its general intent. This step has been recommended by the Electoral Commission.¹⁹³ Moreover, we note that the current framing of the act places responsibility for compliance largely on party secretaries, even when offences may result from systemic problems with the party’s set-up or the actions of other party members. The possibility for the party itself to be held liable in some circumstances, not just the secretary, should be investigated. It is also concerning that current donations rules do not apply to unregistered parties, leaving it open for them to receive unlimited amounts of donations, including from foreign donors, without any disclosure. This issue also merits further investigation.¹⁹⁴

A further loophole concerns donations to candidates, which do not have to be publicly disclosed unless they are over \$1,500. Currently, a donor could give \$1,500 to a candidate in every electorate where a party is standing (up to a maximum of 72), effectively contributing \$108,000 to a party’s campaign without having to declare it.¹⁹⁵ One way to close this loophole would be to require anyone donating to more than one candidate in a given party to disclose this fact, so that the party can aggregate their donations and declare them if they are over the party donation disclosure threshold. This would be consistent with our proposal for donor declaration forms (below).

Finally, we note that even after recent improvements in practices, there continue to be loopholes in the rules on fundraising auctions. If, for instance, an art dealer gave a party a painting they valued at \$100,000, and a wealthy donor bought it for \$95,000, only the dealer’s name would be disclosed. The donor would not have given anything in excess of the “market” price, so there would be no donation to be attributed to them. Accordingly, we believe the rules around auctions need to be strengthened.

Fully anonymous donations

These should be only allowed up to \$1,500, and channelled via the Electoral Commission. This would recognise situations where individuals might have a legitimate desire not to be known to the party (so as not to be targeted for future fundraising attempts, for instance). It would, however, remove all large fully anonymous donations, which, for the reasons outlined above, may provide a means for individuals to secretly exercise influence.

191 Edgeler, G. (2022). Submission to the Independent Electoral Review.

192 Geddis, “Rethinking the Funding”, p.9.

193 Electoral Commission. (2021). *Report of the Electoral Commission on the 2020 General Election and referendums*. Electoral Commission.

194 Edgeler, G. (2022). Submission to the Independent Electoral Review.

195 Edgeler, G. (2022). Submission to the Independent Electoral Review.

Foreign donations

These should be banned, except from people eligible to enrol as voters in New Zealand but temporarily overseas. That exception aside, there are no grounds for allowing those outside New Zealand's borders the right to donate.

Donor declarations

Currently, donors do not have to sign any form or declaration stating they are the true donor. This seems unusual, given the widespread use of declaration forms in many other areas of public life. There is also evidence that such forms can deter at least some illegitimate activity.¹⁹⁶ In the Labour and National donations trial, it is noteworthy that many of the people asked to channel tranches of a much larger donation through their bank accounts did not seem to understand what was being required of them, or the illegality involved. Requiring anyone giving over a certain amount – perhaps \$150 – to sign a declaration form would at least help push back against such practices.

Frequency of returns

There have recently been suggestions that political parties should have to disclose their donations more often than once a year. Political parties have, however, raised concerns about the administrative burden this would create, especially for smaller organisations. While we do not find these arguments totally persuasive, if our other proposals were implemented there would be such an increase in transparency (and limitations) on donations that we would not see more frequent reporting as necessary. If our proposals were not implemented, however, there would be a stronger case for requiring parties to provide donations returns on half-yearly basis. Either way, the Electoral Commission should upgrade its online portal to make filing returns as simple as possible and information more readily available, not just as PDFs.

Large donation disclosure

If our recommended \$15,000 upper limit on donations is not adopted, we would like to note an additional problem that arises with the Electoral Amendment Bill currently before Parliament. The Bill would reduce the threshold for donations that have to be disclosed within ten days from \$30,000 to \$20,000, but apply this rule only in election years. While the first element is welcome, the second is not, as it would significantly delay public knowledge of large donations, which can exert influence – for instance, over legislative decisions – even outside election years. A donation of \$250,000 could be made on 1 January 2024 (a non-election-year), with a view to influencing a party's position on legislation before the House, but not be disclosed until the annual donations returns were published in May 2025, some 16 months later. This would be far too late for the public to be able to judge in the moment whether undue influence was being exerted and, if so, mobilise against it.

In another scenario, if a snap election were called in March 2025, the 10-day disclosure rule would come into effect only once the election was called. If it had been clear that a potential snap election was in prospect, donors could have given hundreds of thousands of dollars to a party in the weeks running up to the snap-election announcement – yet this would not be disclosed until May 2026, over a year later. Money given to a centrist 'kingmaker' or 'queenmaker' party could exert particular influence in this case. If the proposed reduction in disclosure is implemented, as seemed possible at the time of writing, it should be reversed by a future government.

Fundraising regulations

Although it is not technically classed as involving donations, event-based fundraising – such as business conferences organised by parties – should be subject to greater transparency. Currently, as above, the fees paid to attend fundraising events may not be treated as donations if the organising party charges them at 'market' rates. We believe that payments to attend such an event should, as in other countries, be added up, the cost of running the event deducted, and the balance split among attendees and attributed to each as a donation.

¹⁹⁶ For example, a behavioural field experiment conducted by the Washington State Department of Revenue, found that mandating a signed affidavit for tax purposes increased compliance. Sanders, D. L., Reckers, P. M., & Iyer, G. S. (2008). Influence of accountability and penalty awareness on tax compliance. *Journal of the American Taxation Association*, 30(2), 1-20.

If this is not adopted, there should at least be an outright ban on ministers attending fundraisers, as has been implemented in Queensland.¹⁹⁷

Third-party spending

Tightening the rules on political donations would raise the risk that funds would flow instead to third parties, which are currently subject to few regulations and would offer a discreet way to influence elections. Third parties are typically campaigning civil-society groups such as Greenpeace or the Taxpayers' Union. This would be an example of the proverbial 'balloon' effect, in which squeezing down on one part of a balloon simply causes it to expand elsewhere.

Although third-party regulations are largely out of scope for this report, a couple of points may be made. First, New Zealand already has (minimal) regulations on third parties, including limiting their spending in the regulated period to \$330,000 each. Second, these regulations could presumably be strengthened, although civil-society rights would have to be respected. Attempts to restrict third-party spending for a longer period before an election would likely be controversial, as the reform efforts under the fifth Labour government demonstrated.

An alternative would be that if third parties planned to campaign during the regulated period, they would be required to disclose any major donations (along similar lines to political parties) made during, say, the year leading up to an election. In the UK, for instance, third parties must disclose all donations above £7,500 "received for campaign expenditure".¹⁹⁸ In New Zealand, the Justice Select Committee's report on the 2017 election suggested that third parties should have to declare their donations, and that it be unlawful for them to use funds from a foreign entity for electoral purposes.¹⁹⁹ Such policies could balance the general provision of privacy for the funding of NGOs against the need for greater transparency around elections. Such regulatory ideas, however, deserve greater exploration than is possible here.

State funding

The above restrictions on political donations would undoubtedly reduce party revenues. During our research, we heard views that much party spending was of the 'arms race' variety, induced by competing with other parties rather than intrinsically valuable. In this view, if party spending were limited, democracy would not suffer.

We did not find these arguments wholly persuasive. While some spending may be of the 'arms race' kind, nonetheless parties should be free to make maximum use of modern techniques to communicate with voters, many of which are expensive. If spending were constrained, the most likely result is that the public would simply know less about parties' policies. Parties might try to recruit more volunteers, substituting time for money, but it is not necessarily within their power to reverse the decades-long precipitous decline in party membership, so that could not be relied upon.

We also heard arguments that parties' sole public-good activity is developing policy, and that state funds should go only to that activity rather than to things like communications, which may include relatively content-free "attack" advertisements. We did consider "tagged" state funding, as exemplified by the British policy development grants discussed earlier, and we believe this idea merits further consideration. However, there are evident problems in mandating how parties spend funds.

Policies are little use if the public is not aware of them, so at least some political communications are part of the public good; moreover, parties arguably should be free to decide whether the best use of their funds at a given moment is to develop new policy or better communicate existing policies to new audiences. In addition, it is not obvious how one would design a system of state funding that rewarded only "positive" political communications, especially given the dangers inherent in such state intervention. Through the broadcasting allocation, the state already provides funds for communication without any such attempt at differentiation. State funds being used to subsidise attack ads is simply a price to be paid for having well-supported parties in a world where perfect targeting of funds is either impossible or undesirable.

197 Tham, J-C. (2010). "Regulating political contributions: Another view from across the Tasman". *Policy Quarterly*, 6(3), 26-30, p.29.

198 Committee on Standards in Public Life, *Political Party finance*, p.31.

199 Justice Committee, *Inquiry into the 2017 General Election*, at 49.

Finally, we heard arguments that extra state funds for political parties should come with extra forms of accountability. We support moves currently underway to require parties to publish annual accounts. It could also be argued that parties should be more accountable to their members, for instance by allowing members to rank list candidates, as the Green Party already does. This would be in line with the Electoral Act's requirement that parties select candidates in a "democratic" manner.²⁰⁰ We have not had room to consider such arguments in depth, but believe they warrant further investigation.

For the moment, our focus is to develop a system of state funding that is fair and comprehensive. The key principle is to fund parties to adequately carry out their duties, in a way that avoids reinforcing incumbency and encourages parties to engage with the public.

Furthermore, while we are not persuaded by arguments that state funding is an illegitimate use of a taxpayer's money, we do see merit in ensuring that individual citizens retain control over funding as closely as possible. This cannot be achieved perfectly, of course: state funding inevitably mingles the contributions of multiple taxpayers, and higher-rate taxpayers will contribute more, in pure dollar terms, than lower-rate ones. Nonetheless some state-funding methods perform better on the above criterion than others.

Our preferred option: summary

Chapter two surveyed the range of state funding methods employed in other countries. Although we favour some options more than others, each has its strengths and weaknesses. Accordingly, and in line with other international reports on political finance, we recommend a complementary, strengths-maximising mix of measures, rather than just one.²⁰¹ It is also our recommendation that although Parliament would inevitably set the initial terms under which state funding was created, its administration thereafter would ideally reside as much as possible with the Electoral Commission, as an independent body.

Having weighed the different methods' pros and cons, we recommend a combination of Canadian-style tax credits, Seattle-style democracy vouchers and lump-sum payments. Tax credits are, as above, a form of reimbursement in which the state essentially subsidises a large proportion of an individual's donation to a party – but only up to a set amount, thus incentivising small donations. 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. To overcome difficulties in explaining them to the public, the credits could be described more like matched funding (e.g. "for the first \$500 you give a political party, the state gives \$334; for the next \$500, the state gives \$250; etc.").

Democracy vouchers, meanwhile, are sent directly to individuals, allowing them to allocate state funds to the party of their choice. This strikes us as the most democratic of all state-funding options but also the most novel, so to begin with we would deploy it in a limited manner. We would take the current broadcasting allowance of roughly \$4 million, repurpose it as a fund that parties can use for any campaigning purpose, and then allow citizens to allocate it using the vouchers.

Inherent in the above proposal is the idea that funding parties for their non-parliamentary activities is valid, even outside election campaigns, so that they can (for instance) develop policy. While this would not do away altogether with the distinction (and continual tension) between 'parliamentary' and 'non-parliamentary' funding and activities, the existence of state funding for non-parliamentary activities would presumably reduce the incentive to misuse parliamentary funding (i.e. for electioneering purposes). We would also support moves that would help to delineate the different forms of funding more clearly.²⁰²

While we believe our proposal has significant merit, we do recognise that the democracy vouchers element is relatively untried, especially at a national level, and therefore may be seen as too experimental. We would argue that such experiments are entirely in keeping with the New Zealand tradition of democratic innovation that dates back to the world-leading introduction of woman's suffrage in 1893. If, however, democracy vouchers were

200 Electoral Act 1993, s 71.

201 Phillips, H. (2007). *Strengthening Democracy: Fair and sustainable funding of political parties*. The Stationery Office.

202 Edgeler, G. (2022). Submission to the Independent Electoral Review.

still considered to be too untested, we would recommend a revised form of the current broadcasting allocation, together with a pilot study of democracy vouchers to further examine their strengths and weaknesses.

Finally, we recommend that, as in some other jurisdictions, parties should 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. (As an aside, an alternative to compulsory private audits of parties' accounts would be to require the Auditor-General to carry them out.)

There would be reasonable arguments for the payments to go only to minor parties (defined perhaps as those polling under 10% at the last election), or only to those yet to enter Parliament (if the specific desire were to increase parliamentary diversity). However, for the sake of simplicity and because all parties face state-imposed costs, we recommend the payments go to all parties – with one exception. In order to prevent individuals from cynically starting political parties solely to gain access to the lump-sum payment, an eligibility threshold – for instance, polling 2% at the previous election or in several consecutive opinion polls – would be required. Alternatively, a party would need to be represented in Parliament. Even with this condition, we believe this funding could help answer the desire to assist smaller parties that was so strongly expressed in our focus groups.

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.

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

Costings

Costing our proposal is not straightforward. It would be if we were proposing per-vote funding, which can be readily calculated from previous election results. Indeed, we provide some calculations using this method below, to help benchmark the likely costs.

Costing a tax-credits system, however, is complex because we do not know how many donations parties currently receive from publicly anonymous donations under \$1,500. This makes it near-impossible to estimate the public cost of subsidising even current donations, let alone the likely cost if more such donations were induced thanks to the presence of subsidies. Moreover, the fact that political parties do not have to publish their annual accounts means we know very little about their current revenues. This makes it difficult to know if our proposals would maintain parties' current income. And that is without even contemplating the question of whether *adequate* funding for parties – sufficient for them to develop well-considered policies and communicate them to the electorate – might not be higher than the revenues they currently enjoy.

Accordingly, in what follows, we make the most of the available New Zealand information, combined with international comparisons. Our estimates must, however, be treated with a fair degree of caution.

Tax credits

Beginning with an international comparison, Canadian data for the period 2016–19 show that, on average, political parties there receive C\$50 million annually in donations under their system of a strict donations cap plus generous tax credits. Converted into New Zealand dollars, this is equivalent to NZ\$64 million, which, adjusted for New Zealand's registered voting population being roughly one-eighth of Canada's, equates to approximately NZ\$8 million a year.

In Table 8 we present the annual amounts gained in donations by the five Canadian political parties as detailed in chapter eight, and their rough conversions into annual New Zealand equivalents using the process above.

Table 8: Donations received by Canadian political parties

Party	2021 vote %	Donations p.a. (C\$)	Equivalent donations p.a. (NZ\$)
Bloc Québécois	7.6	\$929,000	\$148,000
Conservatives	33.7	\$23,000,000	\$3,670,000
Green Party	2.3	\$3,730,000	\$595,000
Liberals	32.6	\$16,900,000	\$2,690,000
NDP	17.8	\$5,860,000	\$934,000

What this loosely indicates is that under a Canadian-style system, 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 thousands of dollars. The National Party, as the equivalent of Canada's Conservatives, could expect to receive upwards of \$3 million a year. This is a substantial sum, and contrasts with fears sometimes expressed by National spokespeople that political finance reform would unduly disadvantage their party.

Furthermore, our proposals would allow a more generous donation limit than the Canadian system (\$15,000 as opposed to \$2,100). Political parties could accordingly expect to have higher revenues than those above. Just how high is once again difficult to estimate. We do have data on how much parties receive in donations between \$1,500 and \$15,000, but those donations are currently publicly anonymous, and requiring their donors' identities to be disclosed (as we propose) would undoubtedly reduce their number. However, it does not seem likely that all donations in this band would dry up if disclosure were required. National and Act, for instance, remain able to attract large sums above \$30,000, despite donors having to disclose their identities. Moreover, even if, as in Canada, the per-donation tax credit were capped at a relatively low level, it would still apply to donations over \$1,500, encouraging more of them to be made.

We can look, then, at the amounts received between \$1,500 and \$15,000 in the last available year, 2021, which were \$732,000 for National, \$608,000 for Act and \$101,000 for each of Labour and the Green Party (just to take four key examples). Assuming that disclosure requirements, counterbalanced by tax-credit incentives, reduced these amounts by 50% (which seems as reasonable as any other estimate), this would add anywhere between \$50,000 and \$350,000 to parties' coffers.

Moreover, parties have sources of funds beyond donations, including selling merchandise, other fundraising schemes, and, if represented in Parliament, access to the roughly \$44 million a year in 'party and member support' for the operations of their parliamentary wings. Parties would also undoubtedly adapt to the new system in various ways. A notional 10 Green MPs, for instance, would presumably continue to tithe at the maximum allowable amount, \$15,000, generating a further \$150,000 a year for the party. Therefore it seems reasonable to assume that, although the above estimates are imprecise, political parties would continue to be roughly as well funded as presently. Some parties' revenues would be reduced more significantly than others. But that is an inevitable outcome of a system that aims to make party funding more egalitarian.

To estimate the impact on the public purse, we would need to know how much of the above \$8 million in donations would effectively be subsidised by tax credits. Under the Canadian system, the average donation is C\$212. Since donations of this size attract a tax credit of 75%, we can assume that 75% of the NZ\$8 million per year, or NZ\$6 million, would be the effective size of the state subsidy. Moreover, Canadian data show the state disbursed C\$35 million in tax credits in the last non-election year (2020) and C\$45 million in the last election year (2021). These are equivalent to NZ\$5.5 million and \$7 million, broadly in line with the above estimate.

The exact design of our tax-credit system would require further work, though it might be a slightly simplified version of the Canadian one. This could be a two-thirds subsidy for donations up to \$500 (equivalent to 2:1 matching), a 50% subsidy on the next \$500 (1:1 matching), and a one-third subsidy on a final \$500 (1:2 matching). This means a \$1,500 donation would attract the maximum subsidy of \$750. In dollar terms this is shown in Table 9.

Table 9: Proposed tax credit design

	Amount	Tax credit %	Tax credit amount	Net donation from individual	Effective matching
	Up to \$500	67%	\$344	\$166	2:1
	\$500-1,000	50%	\$250	\$250	2:1
	\$1,000-1,500	33%	\$166	\$344	2:1
Total/average	\$1,500	50%	\$750	\$750	1:1

The \$1,500 needed to attract the maximum donation would neatly align with the proposed donor identity disclosure threshold. The consistent, round-number bands and the mirrored tax-credit rates would also aid with ease of explanation, albeit it would still be complex to understand initially.

Lump-sum payments

We also propose that the annual lump-sum payment to all parties polling over 2% at the last election or in several consecutive opinion polls, or that are represented in Parliament, should be worth \$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. Depending of course on the number of eligible parties, this would add something in the region of \$600,000 a year to the total.

Per-vote estimates

The above estimates can be benchmarked against the likely costs of a per-vote system. (The calculations below will also be interesting to readers who prefer that option.) In 1986, the Royal Commission recommended that parties receive \$1 per vote for each vote up to 20% of the overall total, and 50c for each subsequent vote. Adjusted for inflation, those sums would be \$2.80 and \$1.40, respectively. In the calculations below, we also include the \$100,000 lump sum to all eligible parties. The Opportunities Party (TOP) has been included to demonstrate possible effects of the funding model, even though it has not consistently polled over 2% at elections. The calculations in Table 10 are based on an average of the last three elections, as the 2020 result, an outright Labour majority, could be considered an abnormal result and liable to bias the totals.

Table 10: Per-vote estimates

	Average vote 2014-20	Votes under threshold	At \$2.80 per vote	Votes over threshold	At \$1.40 per vote	\$100,000 lump sum	Total funding
Labour	1,001,421	533,035	\$1,492,498	468,386	\$655,740	\$100,000	\$2,248,238
National	1,007,284	533,035	\$1,492,498	474,249	\$663,948	\$100,000	\$2,256,446
Act	82,932	82,932	\$232,209	0	\$0	\$100,000	\$332,209
Green Party	215,519	215,519	\$603,452	0	\$0	\$100,000	\$703,452
Māori	32,020	32,020	\$89,656	0	\$0	\$100,000	\$189,656
NZF	156,675	156,675	\$438,691	0	\$0	\$100,000	\$538,691
TOP	53,355	53,355	\$149,394	0	\$0	\$100,000	\$249,394
Average turnout	2,665,175					Total	\$6,268,692
20% threshold	533,035						

The broad estimate of the costs of this system is just over \$6 million, which is reassuringly close to the Canadian-derived tax-credit estimate. Admittedly, per-vote funding in other countries often works on an electoral cycle basis: that is, as a one-off payment at the start of each cycle. However, \$6 million per three-year cycle, or \$2 million a year between all parties, would be manifestly inadequate. So this would have to be the yearly sum dispensed.

Further benchmarking

A couple of further benchmarking exercises can be undertaken. One is to look beyond Canada and see how much other countries spend in state funding. In 2011, cross-country estimates put the average European state funding at £4.28 per registered voter per year (adjusted for inflation).²⁰³ Converted into NZD, this would be \$8.43 for each of New Zealand's 3.4 million registered voters, or \$28.9 million annually. Vagaries of state funding make such comparisons difficult (the European figure might, for instance, cover some parliamentary allocations), so this number must be treated with care. If it were accurate, however, it would indicate that our proposed allocation is not overly generous. Conversely, the British subsidy at the time was estimated at the equivalent of 93c per voter per year (inflation-adjusted), or NZ\$3.19 million.

Finally, we can try to estimate whether the sums modelled above accord with what little we know about parties' finances. Documents seen during our research indicate the Clark-era Labour party ran on a budget (including all revenue, not just donations) of \$1.5–2.5 million in non-election years and \$3 million-plus in election years. One former National president, meanwhile, estimated that the party had a budget of \$15 million over a cycle, or \$5 million a year. The precision of this estimate is, admittedly, hard to gauge.

Finally, accounts from the Green Party, which as an incorporated society files annual returns, show it had donations revenue of \$1.2 million in 2021–22, a non-election period.²⁰⁴ This is much less than the approximately \$600,000 that, as above, it would get if it mirrored the Canadian Green Party's performance adjusted for New Zealand's size and currency. However, the New Zealand Green Party is significantly more successful than its Canadian counterpart, winning a roughly 60% larger vote share in recent elections. Increasing its notional \$600,000 by 60%, and combining that with MP tithing, a \$100,000 lump-sum payment and the likely increase in donations stemming from the tax-credit incentive, would lift its expected revenue up to or above its current \$1.2 million. Bearing in mind once again the imprecision of the above figures, these data suggest our recommendations are broadly in line with donations revenues currently enjoyed by parties.

Democracy vouchers

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 they be used to allocate a repurposed form of the broadcasting allocation, currently the principal campaign-related form of state funding in New Zealand.

We would, first, allow this funding – roughly \$4 million at the last election – to be used for any campaigning purpose, responding to arguments that it no longer makes sense to restrict how parties can spend the funds. Second, we would distribute it as democracy vouchers at the start of each election year. (Other arrangements would have to be made for snap elections.) The Seattle experience is that, despite the vouchers' being 'free' money, only 10% of voters allocate them. Working on a similar basis, we would expect that roughly 340,000 New Zealand voters would use their voucher. If they were allocating \$4 million, that would imply the vouchers should be set at roughly \$11 each, probably just enough to motivate people to use them. This would be especially true if there were a secure, one-click site where people could go online, select the party of their choice, and allocate their voucher using a dedicated individual code. Paper vouchers could be easily returned using a pre-addressed envelope. The allocation would be capped at \$4 million, so that if more people tried to allocate their vouchers, the costs would not blow out. Alternatively, if take-up were lower than 10%, the vouchers that were allocated could effectively be scaled up until their total reached \$4 million.

Ideally the total allocated would be a greater amount, so as to make the vouchers larger and people more likely to allocate them. But this would involve increasing the 'broadcasting' (or perhaps 'campaigning') allowance, which

203 Committee on Standards in Public Life (2011). *Political party finance: Ending the big donor culture*. The Stationery Office, p.43.

204 This information can be found for the Green Party on the Incorporated Societies Register at: <https://is-register.companiesoffice.govt.nz/>.

might be politically difficult. And the annual \$44 million ‘party and member support’ could not be allocated this way, as it is designated for parliamentary activities and needs to be tied to party’s parliamentary size. Allocating this via vouchers would run the risk of parties in Parliament not attracting enough funds to carry out their parliamentary responsibilities.

The broadcasting allocation

As above, we propose reconstituting this funding. If that proposal were not taken up, more conservative reform options could be contemplated. For instance, the rules the Electoral Commission must follow in allocating the funding are widely regarded as confusing and incoherent.²⁰⁵ This could be the subject of a separate review that aims to simplify and clarify the rules. This might include introducing clearer guidelines that smaller parties should receive an amount that is (at least slightly) disproportionate to their size, in order to combat incumbency effects, while recognising that larger parties still deserve a larger share overall.

An alternative would be to repurpose the broadcasting allocation so that parties can use its funds for any kind of campaigning, but otherwise maintain the current system of allocation. This would recognise that political parties may be best placed to determine how they can best spend their funds, and would resolve the anomaly that third parties can spend what they choose on broadcast advertising (subject to overall spending limits in the regulated period) while parties cannot spend on broadcast advertising *except* through the allocation.

Election spending limits

These are largely out of scope for this report. We note that they command widespread support, and we endorse their continuation. We also note, however, concerns about the ‘permanent’ campaign and the argument that much critical spending – especially to build voter databases – now occurs outside of the three-month regulated period. In the UK, spending limits apply for up to a year before an election. Moreover, as noted above, New Zealand’s limit applies only to relatively restricted forms of spending, and should potentially be expanded. As Andrew Geddis notes, both Canada and the UK “require electoral contestants to include a far wider range of expenditures under their election caps”.²⁰⁶ These questions should be the subject of a separate review.

205 Geddis, “Funding New Zealand’s Election Campaigns”. See also Electoral Commission, *Report of the Electoral Commission on the 2020 General Election*, p.52.

206 Geddis, “Rethinking the Funding”, p.7.

11. The path to reform

Although the implementation of change is more a question for politicians than researchers, it is still worth reflecting briefly on how the above proposals might come to fruition.

The first point to make is that there is some support for change, though its extent should not be exaggerated. There is clearly disquiet at the present situation, as evidenced by the 70% of New Zealanders who have little or no trust in the funding of political parties. Transparency about donations is very important to the public, and a majority seek further action in that area. The majority of those with decided views also support tougher limits on donations. Over half the public thinks political parties should get at least part of their funding from the state, and 30–40% support one or more of the specific ways that extra state funding could be implemented. A large proportion of the public, probably one-third, is either confused by, or lacks strong views on, the funding of political parties – and is therefore presumably open to being convinced.

Conversely, our polling showed that only one New Zealander in seven is firmly interested in the subject at present, and just one-fifth of the public are strongly in support of “state funding” when presented with it as an abstract concept. Recent donations-related court cases have sparked relatively little public disquiet, despite clear evidence of wrongdoing and, in one case, successful prosecutions. Lacking the proverbial “burning platform” for change, politicians are not likely to be strongly motivated to act on the subject.

And while a determined government could, nonetheless, take action, the convention is that major changes to New Zealand’s constitutional arrangements should take place with bipartisan support rather than on a simple majority vote. How far this convention extends is not clear. In recent years, both major parties have changed ‘the rules of the game’ without bipartisan support, National by denying prisoners the right to vote and Labour by introducing the proposed changes to donations rules currently before Parliament. These are, however, much smaller changes to our constitutional arrangements than those envisaged in this report.

Changes of the kind we have set out would, therefore, be best made through a bipartisan process. It is not clear what exactly that might look like. Opposition parties currently see no pressing need to reform political party finance, and indeed have signalled in advance their dislike of some of the proposals we advance. A cross-party process does not therefore look likely.

A more promising path would be to convene some kind of assembly or process that does not directly involve parliamentarians but which might be seen as non-partisan and therefore have widespread legitimacy. The form this traditionally takes is a Royal Commission, and that would have its merits. As, however, commissioners are generally selected by the government of the day, and may comprise a small number of the “great and good” rather than being representative of the country at large, it is not clear that this is the best possible method.

Better still might be a citizens’ assembly, a process in which perhaps 100 citizens, selected to be representative of the country in terms of age, ethnicity, income and other characteristics, are brought together for a series of weekends to discuss and deliver recommendations on a major subject of public policy. The citizens receive training on how to debate policy, are presented with a balanced array of evidence, and have the opportunity to interrogate experts. Because they are representative of the wider country, and can discuss issues and change their minds with greater freedom than politicians enjoy, their conclusions can be seen as those that the whole country would reach if they had the chance to discuss the issue under such ideal conditions.

Such assemblies, increasingly popular overseas, have been used to set policy – or at least a direction of travel – on vital issues including climate change, marriage equality, and voting systems.²⁰⁷ It is widely recognised that such assemblies are particularly useful when politicians are unable to make progress or the issue in question involves complex moral trade-offs for which there is no single ‘right’ answer. Both criteria apply to the issue of political party finance. Putting it to a citizens’ assembly could, therefore, be an ideal way to discover how, after reflection, an informed public would like New Zealand’s political parties to be funded.

207 Public Service Commission. (2022). *Long-Term Insights Briefing 2022*. <https://www.publicservice.govt.nz/publications/long-term-insights-briefings/long-term-insights-briefings-public-consultations/>.

Appendices

Appendix 1: Political finance regulation in 32 OECD countries

	Disclosure threshold	Annual donations cap	Limits on entities	Campaign spending limits per party	State funding
Austria	\$4,200	\$12,500	Unions banned	\$11.8m	Yes. Funding pool is \$8 per eligible voter (\$50 million in 2020). Parties with 5+ seats in Parliament receive a \$375,000 lump sum; the rest of their funding is distributed based on vote share at last election. Parties winning no seats but 1%+ of votes receive a one-time payment of \$4.30 per vote. Funding is increased by 3% if the proportion of female MPs exceeds 40%
Australia	\$16,500	None	Donations from entities over \$1,100 banned	None	Yes. Campaign funding (2019 election) of \$77m, paid as reimbursement for campaign spending to parties getting a certain percentage of votes. The amount payable is the lesser of the calculated election funding entitlement (\$3.34 per eligible vote) or the amount of proven campaign spending
Belgium	\$200	\$850	Companies and unions banned	\$1.7m	Yes. Parties with at least one MP in the Chamber of Representatives are eligible. Lump sum \$210,000 allocated to all eligible parties. Extra \$85,000 if also represented in the Senate. Other funding is \$4.20 per valid vote per party or \$5.90 per vote if represented in the Senate
Canada	\$200	\$2,100	Companies and unions banned	95c per elector in districts where the party runs x 1.502 (inflation adjustment)	Yes. Tax credits (rebates) at varying rates: 75% on donations up to \$500; 50% in band \$500-950, and 33% over \$950; maximum credit of \$830. Expenses reimbursement: 50% of election expenses reimbursed for parties getting 2%+
Czech Republic	None	\$195,000	No bans on companies or trade unions	\$5.8m	Yes. Regular funding: \$37m (2019) allocated as \$400,000 annual lump sum for parties winning 3%+ of vote in previous Chamber of Deputies election + \$15,000 for every 0.1% of the vote received between 3% and 5%. Campaign funding: \$35m allocated by formula in which parties with 1.5%+ of votes receive a one-time subsidy of \$7 per vote
Denmark	\$4,500	None	No bans on companies or trade unions	None	Yes. \$7.60 per vote allocated to eligible parties, based on previous election
Estonia	None	\$2,000 (but in-kind donations unlimited)	Only natural persons can donate	None	Yes. Total subsidy has been c.\$9m since 2015. Parties reaching the 5% vote threshold for entering Parliament receive an annual subsidy based on seat numbers. Parties with less than 5% receive \$50,000 p.a. for 2-3% of votes; \$100,000 p.a. for 3-4% of votes; \$170,000 p.a. for 4-5% of votes
Finland	\$2,500	\$50,000	No bans on companies or trade unions	None	Yes. Funding of c.\$50m allocated based on share of seats won at last election

	Disclosure threshold	Annual donations cap	Limits on entities	Campaign spending limits per party	State funding
France	None	\$12,500	Companies and trade unions banned	Capped according to formula based on constituency population	Yes. Funding of c.\$115m allocated based on number of votes received and number of seats obtained at last election
Germany	\$17,000	None	Companies banned	None	Yes. Per-vote funding: parties receive \$1.40 per vote. Donations matching: parties receive \$0.76 per \$1.70 private donation, up to a maximum of \$5,500 per person
Greece	None	\$33,500	Companies banned	20% of total of last regular funding allocated to all eligible parties	Yes. Regular funding set at 0.005% of government revenue and campaign funding at 0.008%. Regular funding: 80% is split between parties in Parliament according to votes won at last election; 10% is distributed equally to parties that stood in at least 70% of constituencies and won 1.5%+ of the vote; and 10% goes to parties represented in the European Parliament. Campaign funding is split among same groups 50%/40%/10%, respectively.
Hungary	\$2,500	None	Companies banned	\$21,000 per candidate fielded	Yes. Regular funding of \$6m: 25% is distributed equally between parties represented in Parliament; 75% goes to parties that received 1%+ of votes last election, in proportion to votes received. Campaign funding: varies from \$610,000 to \$2.5m for parties with a national list, according to number of nominated candidates
Iceland	\$2,400	\$4,800	No bans on companies or trade unions	None	Yes. Parties winning 1+ seats in parliament or receiving 2.5%+ of votes are eligible. Funding proportional to votes received. Parties who field candidates in all constituencies may receive expenses reimbursement up to \$35,000
Ireland	\$2,500	\$4,200	Company or trade union donation over \$330 must be reported	None (but limits for candidates)	Yes. Funding based on proportion of first preference votes received. \$210,000 p.a. to parties receiving 2%+ of first preference votes + a proportion of a \$6.4 million fund allocated based on votes received
Israel	All	\$500 (non-election year); \$1,150 (election year)	Companies and trade unions banned	\$1m-1.4m per MP (approx.), up to maximum of \$49m per party.	Yes. Campaign funding: allocated, post-election, based on number of MPs in current and prior Parliament (established parties) or seats in current Parliament (new parties). Parties not elected to Parliament but receiving 1%+ of votes get funding. No funding for parties with <1% support. Regular funding: provided to parties in Parliament, and can be used for campaigns
Italy	\$850	\$170,000	No bans on companies or trade unions	Up to \$1.70 per registered voter in each constituency a party contests	No direct funding. Parties receive equal amounts of free time for election campaigning on the public service broadcaster. Taxpayers can direct 0.2% of their income tax to be donated to a specified party

Sources: [https://www.europarl.europa.eu/RegData/etudes/STUD/2021/694836/IPOL_STU\(2021\)694836_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2021/694836/IPOL_STU(2021)694836_EN.pdf), UK Electoral Commission; Elections Canada; European Public Accountability Mechanisms (<https://europam.eu/?module=overview>); Institute for Democracy and Electoral Assistance: <https://www.idea.int/data-tools>; Federal Election Commission (<https://www.fec.gov>)

	Disclosure threshold	Annual donations cap	Limits on entities	Campaign spending limits per party	State funding
Japan	\$600	\$250,000	No bans on companies or trade unions	None	Yes. Funding available to parties if they have at least five members in the House or Representatives or the House of Councillors; or if one member, if they obtained at least 2% of votes in either the most recent general election for the House of Representatives, or either of the last two regular elections for the House of Councillors
Korea	\$1,500	\$12,500 (presidential candidate)	Companies and trade unions banned	\$59m for presidential election (based on \$1.16 per person x 51m inhabitants)	Yes. Funding allocated based on representation in elected body, share of votes in previous election, and share of seats in previous election
Latvia	All	\$35,000	Companies and trade unions banned	Calculated based on number of voters in previous election	Yes. \$7.50 per vote + \$170,000 if party wins more than 5% of votes
Lithuania	\$20	10% of individual's taxable income	Companies and trade unions banned	Enrolled voters x 0.0005 average monthly earnings	Yes. Parties receiving 2%+ of votes get funding proportional to votes. New parties' activities are financed equal to the lowest state budget designated to a party in previous calendar year, multiplied by the ratio of the number of members of the parliamentary group of the new party and the number of members of the parliamentary group of the least-funded parliamentary party
Luxembourg	None	None	Companies and trade unions banned	None	Yes. Regular funding: \$170,000 lump sum + \$19,000 for each percentage point of vote in last election. For campaigning: \$85,000 for parties with 1-4 elected persons; \$170,000 for 5-7; \$250,000 for 8-11; and \$340,000 for 12 or more. Additional amount of \$17,000 for each elected person above 12
The Netherlands	\$7,500	None	No bans on companies or trade unions	None	Yes. \$300,000 lump sum for all parties + \$90,000 per parliamentary seat + a share of a \$3.5m fund allocated based on each party's number of contributing members. To qualify for the latter, parties must have at least 1,000 voting members paying annual fees of \$1.75+
New Zealand	\$15,000	None	No bans on companies or trade unions	\$1,169,000 per party + \$27,500 per electorate contested	Yes. Regular funding: \$45m p.a. in 'party and member support' for parties in Parliament. Campaign funding: broadcasting funds allocated in election year; in 2020, total was \$4.1m, parties' allocations ranging from \$41,000 to \$1.3m
Norway	\$5,500	None	No bans on companies or trade unions	None	Yes. \$86m of funding (2021) paid on per-vote basis, to parties receiving 2.5%+ of votes at last election or with 1+ representatives elected to the Storting
Poland	None	\$15,000 approx. (set at 15x minimum wage)	Companies and trade unions banned	None	Yes. Regular funding: \$22m of per-vote funding allocated to parties that win 3%+ of votes or are part of a coalition that wins 6%+ of votes; amount gradually reduces for subsequent votes. Campaign funding: parties winning 1+ seats in either chamber of Parliament get a one-time subsidy, proportional to seats obtained and capped at level of actual expenses incurred

Sources: [https://www.europarl.europa.eu/RegData/etudes/STUD/2021/694836/IPOL_STU\(2021\)694836_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2021/694836/IPOL_STU(2021)694836_EN.pdf); UK Electoral Commission; Elections Canada; European Public Accountability Mechanisms (<https://europam.eu/?module=overview>); Institute for Democracy and Electoral Assistance: <https://www.idea.int/data-tools>; Federal Election Commission (<https://www.fec.gov>)

	Disclosure threshold	Annual donations cap	Limits on entities	Campaign spending limits per party	State funding
Slovak Republic	\$1,700	\$500,000	No bans on companies or trade unions	\$5m	Yes. \$60m was allocated in year of last parliamentary election. Regular funding: per-vote funds allocated to parties winning 3%+ of total votes. Payment is 1% of average monthly salary (\$2,000 in 2020) per vote. Parties also receive annual funding of the same amount as an "activity contribution". Parties also receive a "mandate contribution" worth 30x the average monthly salary for each seat up to 20 seats + 20x the average monthly salary for additional seats. Campaign funding: paid only in election years
Slovenia	\$3,400	\$34,000	Companies and trade unions banned	\$1.2m	Yes. Regular funding: allocated to parties receiving 1%+ of votes. Campaign funding: 25% of total amount is distributed equally among all eligible parties, and 75% divided in proportion to number of votes received by parties. Expenses reimbursed if list of candidates obtains at least 6% of total votes in the constituency or 2% of total votes in the country. Amount is equal to \$0.56 per vote received, up to a maximum of the party's actual costs incurred
Spain	\$40,000	\$85,000	Companies banned	\$29m	Yes. Funding is proportional to number of votes and seats obtained in previous elections. \$1.36 per vote in Congress; \$0.54 per vote in the Senate; \$35,000 per seat obtained
Sweden	None	None	No bans on companies or trade unions	None	Yes. Total support of \$81 million (2019) allocated to parties winning 2.5%+ of votes in one of the last two general elections. Parties winning 4%+ of votes receive a lump sum of \$1m annually. Parties in Parliament but with <4% of votes receive 1/14 of \$1m per seat. Parties also receive \$3,000 per seat (if the party is in the government) or \$4,000 per seat (if it is not)
Switzerland	\$25,000	None	No bans on companies or trade unions	None	No direct federal funding to political parties. Some cantons (regions) give subsidies to parties winning 20% of votes and/or provide indirect assistance for electoral advertising
UK	\$14,000	None	No bans on companies or trade unions	\$55,000 per constituency contested (maximum \$36m)	Yes. \$34,000 per seat won at last election + \$68 for every 200 votes won by party. For parties with five or fewer MPs, funding floor and ceiling set at 50% and 150% respectively of the Independent Parliamentary Standards Authority's staffing budget of \$330,000
US	\$351	\$60,000 (federal); \$18,000 (state)	Companies and trade unions banned, but companies can donate to a Political Action Committee	\$180m (presidential)	Yes. Funding for presidential elections. Each major political party is entitled to \$7 million to finance its presidential nominating convention. The presidential nominee of each major party may be eligible for a grant of \$35 million for their election campaign. Candidate must limit spending to this amount and not accept private donations

Note: The countries selected are the 37 members of the Organisation for Economic Cooperation and Development (OECD), excluding five low-income countries (Colombia, Chile, Costa Rica, Turkey and Mexico) whose economic and political arrangements are significantly different to those of New Zealand.

All figures have been converted into New Zealand dollars using current exchange rates at October 2022.

In order to make a large volume of information tractable, countries' arrangements have been simplified as much as is possible without losing key information.

Presenting the state funding data is especially complex. Where possible, we have tried to signal distinctions (such as between regular and campaign funding), but given data limitations, this is not always been possible.

Appendix 2: Canadian state funding and political party revenue

The following table shows total revenue for the five largest political parties in Canada for the six-year period from 2016–2021. This covers one election cycle, 2016–2019, plus two additional years, with a further election in 2021. The table also shows the amount of revenue generated from donations and the proportion of revenue that comes from donations as a proportion of total revenue. Additional income comes from memberships, leadership contributions, conventions and annual general meetings, and other revenue.

Note that in the election years (2019 and 2021) political parties receive significant election rebates. For these two years we have calculated the donation revenue as a proportion of total revenue with both the election rebates included in total revenue, and election rebates excluded from total revenue. It is the latter that allows greater comparability across all the years shown. In addition, political parties received additional COVID-19 related government financial assistance in 2020 and 2021.

The table shows that in most years, parties receive a high proportion of their total revenue from donations. For most parties this is over 85% in non-election years. The exception is the largest party, the Conservative Party, who have a lower proportion but in several years receive high amounts called “Directed Leadership Contributions”. For example, these were 22% of total revenue in 2017 and 29% of total revenue in 2020.

	Bloc Québécois	Conservative Party	Green Party	Liberal Party	NDP
2016					
Total revenue	\$800,712	\$24,732,260	\$3,167,801	\$18,667,282	\$5,680,109
Revenue from donations	\$733,853	\$18,516,086	\$2,765,242	\$16,592,558	\$5,388,506
Proportion of total revenue from donations	92%	75%	87%	89%	95%
2017					
Total revenue	\$869,357	\$30,290,036	\$2,546,167	\$14,773,170	\$5,872,864
Revenue from donations	\$798,467	\$18,870,359	\$2,502,849	\$14,078,475	\$5,144,360
Proportion of total revenue from donations	92%	62%	98%	95%	88%
2018					
Total revenue	\$702,110	\$27,865,914	\$3,226,579	\$16,811,503	\$5,481,353
Revenue from donations	\$658,606	\$24,432,466	\$3,067,097	\$16,605,186	\$5,225,576
Proportion of total revenue from donations	94%	88%	95%	99%	95%

	Bloc Québécois	Conservative Party	Green Party	Liberal Party	NDP
2019					
Total revenue	\$3,172,786	\$59,727,005	\$7,844,407	\$42,040,968	\$18,114,504
Revenue from donations	\$2,055,118	\$30,856,850	\$6,473,004	\$21,044,166	\$8,051,159
Proportion of total revenue from donations	65%	52%	83%	50%	44%
Govt transfers / election rebate (2019)	\$1,106,294	\$25,778,281	\$1,223,190	\$20,623,293	\$9,356,682
Revenue from donations without rebate	99%	91%	98%	98%	92%
2020					
Total revenue	\$1,755,165	\$38,930,878	\$5,290,971	\$16,459,927	\$7,357,449
Revenue from donations	\$1,749,902	\$20,653,826	\$4,319,780	\$15,002,766	\$5,977,857
Proportion of total revenue from donations	100%	53%	82%	91%	81%
2021					
Total revenue	\$4,335,530	\$54,989,526	\$4,552,851	\$38,491,806	\$27,385,125
Revenue from donations	\$2,231,123	\$26,478,662	\$3,525,877	\$18,090,226	\$9,086,396
Proportion of total revenue from donations	51%	48%	77%	47%	33%
Govt transfers / election rebate (2019)	\$2,099,020	\$25,158,401	\$981,989	\$20,122,667	\$15,838,041
Revenue from donations without rebate	100%	89%	99%	98%	79%

Note: There are small differences between the above figures and those presented in Chapter 8. These differences can be attributed to adjustments made at audit, along with the timing of some revenue streams.

