

Unbroken, but Dangerous: The UK's Political Finance Regime and the Rationale for Reform

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Abstract

The framework for political donations in the UK creates a risk of political finance inflation, distorted political competition, and corruption. We study reported donations from 2001 to 2023. The value of political donations, adjusted for inflation, has gone down, not up, over the period we study. Adjusting for the popularity of the parties, donations have been received relatively equally by the two big parties. The corruption risk from donations is minimal: the two big parties have not been particularly dependent on individual donors and few businesses bother donating. This benign situation is a matter of luck, not design. The decisions of individual donors or politicians could easily flip the system towards inflation, distorted party competition, or greater corruption. In the wake of the 2025 local elections, reform should appeal to the UK's traditional big three parties: it is a way to partially insulate political parties against electoral volatility, as well as reducing the risks of inflation, distortion, and corruption

Keywords: donations, political finance, parties, United Kingdom

Introduction

Justin Fisher has recently argued that Britain's political finance regime is unbroken.¹ We agree, but we think it is a dangerous system riding its luck. Fisher rightly points to the success of the Political Parties, Elections, and Referendums Act (2000) in delivering transparency, limiting who can donate, overseeing party election spending limits, and establishing a respected regulator. Nevertheless, the system allows donations of unlimited size, including from legal individuals. This creates a risk of a risk of political finance inflation, distorted political competition, and corruption, each of which threaten British democracy. First, there

¹ J. Fisher, 'Party Finance. Not a Broken System, but Some Reforms are Required', *The Political Quarterly*, vol. 96, no. 3, 2025, pp. 570-574.

is potential financial race between candidates and parties that will make politics more and more expensive. Second, a permissive system can distort political competition towards those with access to more and larger political donations, including from organisations that cannot vote. Third, politicians may be tempted to sell influence and big donors may seek to buy it, thereby corrupting the system. Elon Musk's musings about donating as much as \$100 million to the Reform party make the threat even greater. Fisher is right to remind us that hard cases make bad law, but, sometimes, responsible regulation needs to consider rare but disastrous events: a mega donation would break the UK political finance regime. The system would be torn between trying to prevent further mega donations and allowing other parties a chance to catch up with the lucky donee. Notwithstanding this threat to UK democracy and alarming developments in other democracies, there appears to be little appetite for reform. In this context, Fisher, along with Butler and Pack, have wisely suggested 'within-type' reforms to close off loopholes in the current system.² We argue that the gross disproportionality of the last election and the ongoing volatility in voter preferences means that the rationale for fundamental reform from the point of view of the narrow interests of the three traditional big parties – the Conservatives, Labour, and the Liberal Democrats – is stronger than many realise.

The regulation of British political finance has traditionally been candidate-centred and liberal towards parties. The liberalism of British political finance was qualified by the introduction of disclosure in 2001. In 2007, the Hayden Phillips process proposed a reform whereby limits on donations would be compensated by increased public funding.³ This effort appears to have foundered on whether trade union members would have the option of channelling money through their union to parties other than Labour.⁴ A broadly similar model was proposed in Committee on Standards in public life a few years later, albeit with a slightly different arrangement for trade unions.⁵ Instead of reform, there has been deregulation. In 2024, the amount a party could spend at general election was effectively doubled. The Reform party initially organised itself as a company, rather than a party, in order to facilitate the management of cash and professionalise its operations. Therefore, the stage is set for the inflation of campaign costs, even though it is not clear how extra money would be spent, given the ban broadcast advertising and the low cost of canvassing materials.

We now have over two decades' of detailed information on over 87,000 donations. There are different disclosure limits depending on the type of donation and those limits have changed

² C. Butler and M. Pack, 'Donations to Candidates at Election Time: A Hidden Source of Mass Party Funding', *The Political Quarterly*, vol. 96, no. 3, 2025, pp. 546-553.

³ H. Phillips, *Strengthening Democracy: fair and sustainable funding for political parties*, London, HMSO, March 2007.

⁴ H. Phillips, 'The Funding of Political Parties', *The Political Quarterly*, vol. 83, no. 2, 2012, pp. 318-324.

⁵ Committee on Standards in Public Life. *Political party finance: Ending the big donor culture*. Thirteenth report, Cm 8208. London: UK Stationery Office, 2011.

over time. In order to maximise consistency over time, we limit ourselves to donations of £7,500 and above. The analysis stops at January 1, 2024, when the threshold was raised to £11,180.

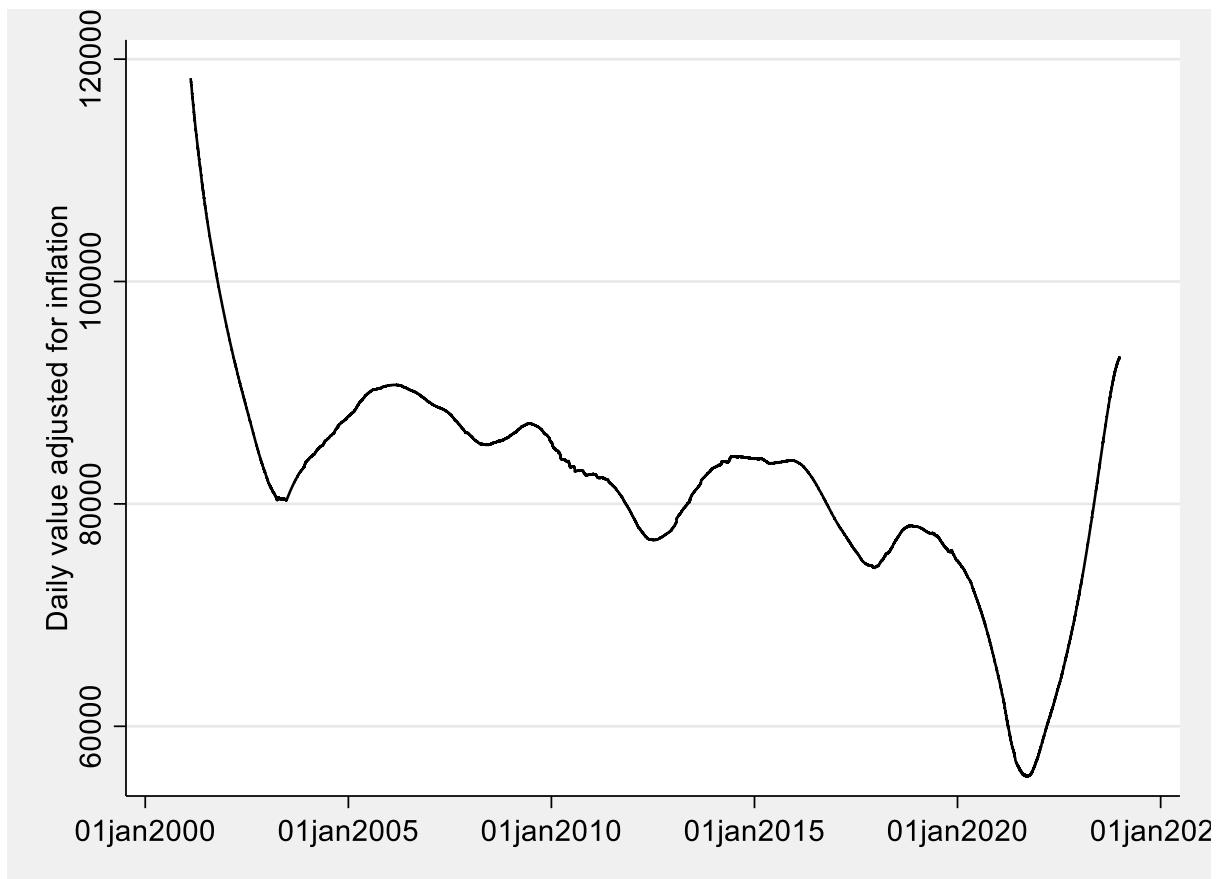
What can donation data tell us?

We can directly observe whether donations have driven political finance inflation. Evaluating the effect of political donations on political competition is more complicated and uncertain. If political competition is distorted by donations, we see two implications that should appear in the data. First, parties will receive donations to a value disproportionate with their popularity. In other words, the value of donations divided by the popularity of the parties in opinion polls should be substantially different. Second, if changes in the value of donations correlate with changes in popularity over time, there is a danger that the richer parties are able to buy popularity. For corruption, we select three empirical implications. First, donations should be concentrated so that parties are dependent on large donors (perhaps especially large donors). Second, if influence is for sale, many businesses should donate to politics. Access to politicians could deliver tax and policy concessions, regulatory capture, or just a competitive edge from awareness of forthcoming policy changes. Third, powerful actors have more valuable influence to sell, so donations should follow power and popularity. None of these are direct indicators of distorted political competition or corruption, but all would seem to increase the risk of a biased or corrupt political system.

Before our main analysis, we orient the reader with some basic data on political donations in the UK. It is important to remember that the data includes only donations over £7500. The three big parties received seventy-eight per cent of the donations, followed by the smaller parties. The politician receiving the most donations was Andy Street, the former Conservative Mayor of the West Midlands on 288, followed by fellow Conservatives, Liam Fox (a former minister) and Boris Johnson (former prime minister) with 150 and 146 respectively. Excluding sources of public funding and party donations, the trade unions comprise six of the seven most frequent donors. Next comes the United and Cecil Club, which is a dining club and fund-raising arm of the Conservative party. The most frequently donating business is JC Bamford, a manufacturer of construction equipment. The Conservative Friends of Israel is by far the most frequent donor with an interest in foreign policy. Individuals, at just under forty-five percent, represent a minority of donations. Companies are responsible for eighteen per cent of donations and trade unions for almost fourteen per cent.

Donor Behaviour and Political Parties

Figure 1: The value of reported donations over £7500



Note: Excludes public funding; Lowess smoothed, bandwidth 0.2. The value of donations is adjusted for changes in the Retail Price Index (Williamson 2024).

Figure 1 shows the daily total value of all donations over £7500. Donations have not been increasing in value, save a recent spike in the run-up to the 2024 general election. If there has been any trend, it has been downwards. Britain's system of unlimited donations does not appear to have made politics more expensive. We now move on the trickier question of political competition.

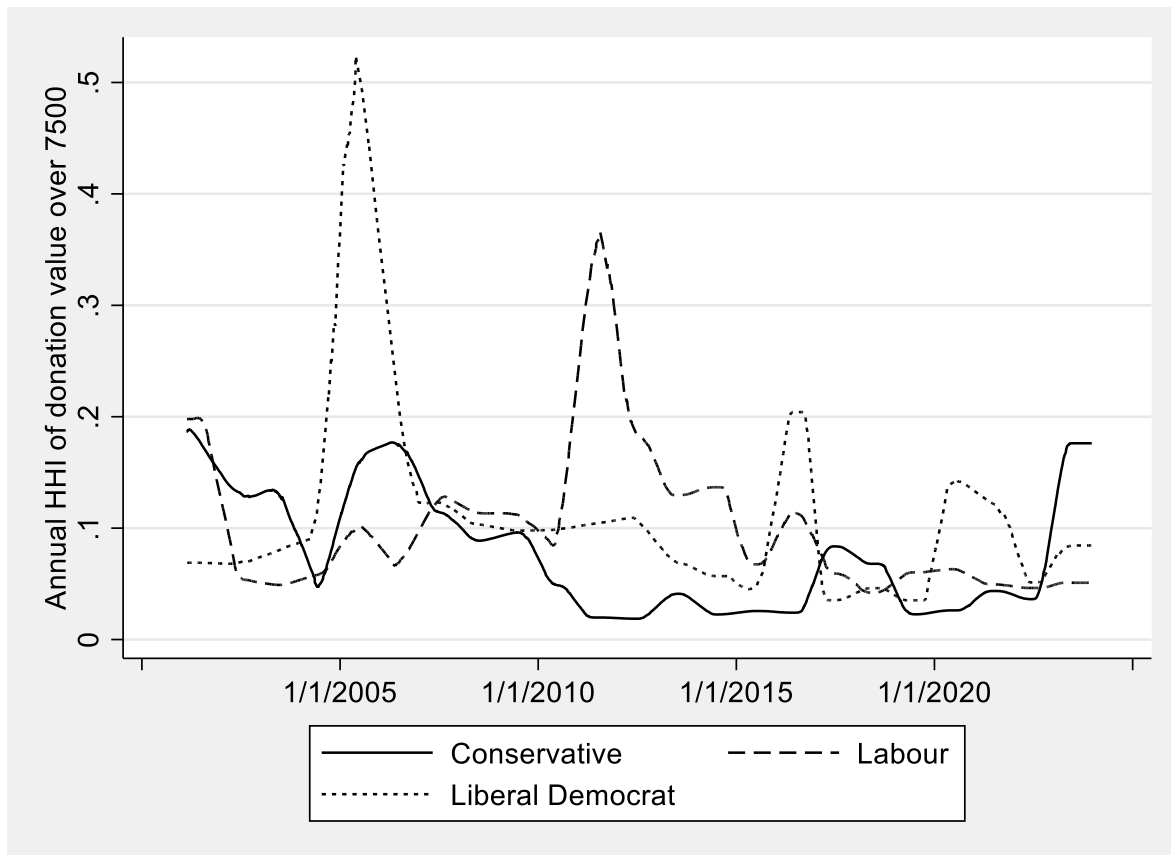
The usual approach to investigating whether political finance distorts political competition is to simply compare the amounts of money raised or spent by Labour and the Conservatives, especially on elections.⁶ This has tended to show an advantage for the Conservatives. We will take an alternative, and complementary, perspective here. Internationally, public funding is overwhelmingly linked to the vote share of parties: they are not treated, as candidates, usually are, as equal competitors. We compared the inflation-adjusted value of donations to monthly intention-to-vote polls across the whole period. By this measure, the Conservatives and Labour received very similar amounts of donations. By contrast, the value of donations

⁶ J. Fisher, 'Party Finance in 2019: Advantage Conservative Party', *Parliamentary Affairs* vol. 73, no. 1, 2020, pp. 189-207.

to the Liberal Democrats is disproportionate to their popularity. They received an average of 2.5 times as much in donations per intending voter as did the two big parties.

Even if the donations received by the larger parties have on aggregate been proportionate to their intended vote shares, the popularity of the parties may have been distorted by the value of donations. To probe this idea, we look at how the value of donations changed over time, emphasising whether popularity and the value of donations are correlated. We also check for the effects of the political calendar. We expect that the more days after the last election the greater the value of donations as parties prepare for the next election. In a similar vein, we anticipate an extra boost to donations in the year of an election. Donors may prefer to give to the party in power. Our statistical analysis shows that the Conservatives were the only party for which poll scores and the value of donations were correlated. This means that the Conservatives may have been able to buy popularity, which would be very concerning. It could also mean the opposite: that donors only gave to the Conservatives when it was more popular. We can also see that the Conservatives were the only party to take in more money when in government. This may fit a story of fair-weather Tory donors, or influence-seeking Tory donors. By contrast, there does not seem to be any relationship between Labour's popularity and the value of donations it received. Being in government seems to have reduced the value of donations for Labour. The Liberal Democrats are the other way around: there appears to be a negative relationship between their popularity and the value of donations, but government did not affect their take from donations. Overall, there is some evidence that donations distort political competition. However, it is inconclusive and confusing. Conservative income seems intertwined with its popularity and whether it is in power; whereas Labour and the Liberal Democrats seem less affected by political circumstances. Of course, this relationship between popularity and Conservative donations also matters for their Labour and Liberal Democrat competitors.

Figure 2: The Concentration of Donations



Much has been written about large donations to British political parties, especially to the Conservative party. The greater the parties' dependence on particular donors, the greater the potential for corruption. The Hirschmann-Herfindahl Index (HHI) is a standard index of concentration. It is a measure of inequality and fewness. The larger the statistic the more parties depend on small numbers of donors. Figure 2 shows that the Conservatives had the lowest and most stable concentration of donations over the period. Having lots of large donors makes it easier to say 'no' to any single donor. By contrast, there are spikes in the level of concentration of Labour and Liberal Democrat donors, which reflects the impact of large donations to parties that do not receive as many large donations. If the Liberal Democrats and Labour were open to corrupt exchanges, they would make better targets than the Conservatives (assuming similar patterns to those shown above). Wilks-Heeg and Hopkin did an excellent analysis of large donors to the Conservative party, which amalgamates donations by family members and individual donations to donations from family-owned businesses.⁷ This would make the Conservatives somewhat more concentrated than above. If the separate unions donating to Labour were counted together because of their common membership of the Trades Union Congress, Labour's score would jump even more. However, the type of donor matters. Obviously, trade unions are less of a corruption risk than individual donors, who are, in turn,

⁷ S. Wilks-Heeg and J. Hopkin, 'Private funding, party politics and regulatory change: how the British Conservative Party prospered under political finance reforms', *Italian Political Science Review*, 2024, pp. 1-15, at pp. 11-13

less of a risk than companies. Corporate donations are much more likely to be self-interested, while donations from individuals tend to reflect the ideology of the donor. However, blatant corruption is perhaps more associated with individuals, as companies, especially large ones, are subject to corporate governance rules. The Conservatives, of course, have been the most dependent on company donations.

Instances of suspected bribery to change government decisions have been rare in the UK, although cash-for-access and cash-for-honours scandals have been quite common. There is little doubt that many Conservative donors are ideological and seek nothing in return and that some are pragmatic and seek to promote business interests through the political system.⁸ Donations by British companies are vanishingly rare at the scale of the economy: we calculate that the average rate over our period was less than one per cent (0.72). If donations could reliably buy influence, there would be more of them. It is hard to tell what the motivation of any particular donation is. Since exchanges cannot be conducted in plain sight or total secrecy, this ambiguity is also highly functional. When challenged, politicians maintain that paying for access is not a form of bribery and that those seeking access may be partisan supporters and/or those looking for a very particular sort of social occasion or connection.⁹ Large donations, that in theory would provide leverage, attract too much attention. Parties do feel an obligation to smaller donors, probably enough to give them a hearing, but usually not enough to alter decisions to the benefit of donors.

Possibilities for Reform

There are, of course, many options for reform. The most progressive option would be to ban private donations totally and fund politics with citizen vouchers. South Australia has recently become the first political system to ban private money in politics (with the exception of new candidates).¹⁰ Vouchers give power to citizens, instead of the mechanical linking of funding to seat shares and vote shares.¹¹ However, this seems very unlikely in the current British context. Instead, we will consider the possibility of another attempt to introduce a limit on donations and public funding. This could include improvements to the transparency regime,

⁸ I. McMenamin, 'Party Identification, the Policy Space, and Business Donations to Political Parties', *Political Studies*, vol. 68, no. 2, 2020, pp. 293-310.

⁹ I. McMenamin and S. Power, 'What motivates businesses to donate to politics? A framework and an empirical application', *Interest Groups and Advocacy* vol. 12, 2023, pp. 272-296.

¹⁰ S. B. Canales and the Australian Associated Press, 'South Australia bans political donations and gifts in 'world-leading reform'', *The Guardian*, 28 November, 2024.

¹¹ J. Cagé, *The Price of Democracy: How Money Shapes Politics and What to Do about It*. Cambridge, MA, Harvard University Press, 2020.

especially regarding the finances of unincorporated associations. Here, the UK might learn from Australian and Irish attempts to bring organisations associated with, or controlled by, political parties into the political finance regime.

Well-informed commentators assume that Labour's promised review of political finance will deliver little and have calibrated their suggestions accordingly. By contrast, Samuel Power argues that 2025 was a turning point for potential political finance reform in the UK because of the threat of Elon Musk making a mega-donation to the Reform Party.¹² However, he notes that the chances of substantial reform are low. Maybe this is because 2025 was not a turning point in terms of the party-political rationale for reform on the part of the governing majority. This would require a political finance scandal, whereby the governing party felt it had to introduce reform to retain votes and/or such a precipitous fall in support that the party wanted to insure itself against electoral disaster. The governing majority would be more likely to introduce such reforms, if it believed that its competitors would not reverse them. Of course, ideology matters too: reform is more likely if it fits a party's world view.

While the current situation is not a crisis for Labour, the rationale for reform, in the narrow self-interest of Britain's political parties, is stronger than commonly believed. The British political system is currently highly volatile, since the fragmentation and fluidity of voter preferences seen in virtually all established democracies is magnified greatly by first-past-the-post in the UK. In this context, public funding can offer insurance against electoral disaster. This would seem to be especially attractive to the Conservatives, who could be squeezed between the Liberal Democrats and Reform, and whose income, as we showed above, has been dependent on its popularity and whether it is in government. Presumably, some British Conservatives are keenly aware of how Labour replaced the Liberals after the Great War and the almost total wipeout suffered by the Canadian Progressive Conservatives in 1993. The insurance argument is less relevant to Labour; but the recent local elections will have reminded them that their current majority is an artifact of the most disproportional election in British history and they could be the victims of disproportionality in the future.¹³ Electoral disproportionality is central to the Liberal Democrat experience and, having failed to reform the electoral system itself, they would surely be keen to introduce public funding as an insurance against its more extreme outcomes.

Given the situation of the three parties, if political finance becomes a problem for Labour, it may see the rationale for reform. Sir Keir Starmer has already endured a personal political finance scandal of sorts by accepting gifts, including Arsenal tickets, from prominent Labour backers. Should another one arise, long-term thinkers in the Labour party may see an opportunity to introduce a Hayden-Phillips deal: restrictions on business and union donations,

¹² S. Power, 'If Not Now, When? The Case for Urgent Reform of the UK's Political Finance Laws', *Political Insight*, vol. 16, no. 1, 2025, pp. 36-39.

¹³ C. Pattie, Charles and D. Cutts. 'Playing the System: Electoral Bias in the 2024 UK General Election', *The Political Quarterly* vol. 96, no. 1, 2024, pp. 65-73.

together with public funding of the day-to-day running of political parties. Public funding would probably be unpopular, as it often is when introduced, but it would also be of low salience. Moreover, voters will understand the rationale of preventing mega donations and reformers can counter allegations of extravagance by pointing out the relative austerity of British politics.

Bonotti and Nwokora probe the ability of systems of partisanship to deliver on the horizontal mechanism of collegiality between parties and politicians and the vertical mechanism of linkage with citizens. The vertical dimension, in turn, can be divided into voice and accountability. They plausibly argue that two-party systems are low on collegiality, low on systemic voice (even though voters have good access to their local MP), but high on systemic accountability. They further submit that public funding can ‘balance’ the low collegiality and systemic voice of a system like the UK’s. Private funding, by contrast, exacerbates the absence of collegiality and the weakness of systemic voice. A combination of private and public funding would result in a weaker balancing of the system’s problems, but would still be an improvement on the existing reliance on private funding.¹⁴

Bonotti and Nwokora’s concern with collegiality and linkage relates to concerns about the fragility of contemporary democracy. Theirs is a static analysis of the operations of partisanship. A dual-funding system would have the added benefit of temporal smoothing. Wilks-Heeg and Hopkin show that the Conservative Party’s income plummeted so precipitously in the 2002 and 2003 that even the UK’s minimal public funding provided almost as much funding as donations.¹⁵ Temporal smoothing might help attenuate polarisation. Parties would share a common interest in maintaining income from public funding. More importantly, elections would be less of an existential struggle for parties and so both government and opposition might be more inclined to stay within the ‘guardrails’ of democratic politics.¹⁶ Majoritarian systems like the UK’s have been associated with lower levels of losers’ consent and executive manoeuvres to checks and balances. Majoritarian and consensus democracy are usually treated as static systems. However, a basic consensus on the institutions of democracy is necessarily dynamic. Losers must believe that the rules will ensure that they can win some time again in the future: ‘democracy is a system in which parties lose elections’.¹⁷ Public funding can make a modest contribution to this belief. Moreover, public funding can maintain the traditional Westminster distinction between government and opposition. While more generous systems of public funding tend to ignore the difference between government and opposition, some, like Sweden and Ireland do not.

¹⁴ M. Bonotti, Matteo and Z. Nwokora, Zim. Political Finance and Party Systems in the Normative Theory of Partisanship: Toward a Civic Model. *British Journal of Political Science* vol. 54, no. 3, 2024, pp. 693-711.

¹⁵ Wilks-Heeg and Hopkin 2024 at p. 10.

¹⁶ S. Levitsky and D. Ziblatt. *How Democracies Die*. Harlow: Penguin, 2018, at pp. 101-107.

¹⁷ A. Przeworski. *Democracy and the Market*. Cambridge, Cambridge University Press, 1991, at p. 10.

State capture is when a small group ‘manipulate[s] politicians and shape[s] institutions to advance and protect their own empires at the expense of the public interest’.¹⁸ Moreover, corruption and the dismantling of democracy are intimately related. Corruption is both a motivation for, and a technique of, democratic backsliding. The UK’s permissive rules on donations contribute to the risk of state capture, although maintaining strict control over public procurement may be more important.¹⁹ There is little doubt that many business donations are narrowly pragmatic, even if exchanges between business and politics area obscured by ‘cover stories’.²⁰ Public funding has the potential to moderate the corruptive potential of donations, by reducing politicians’ dependence on private funding of political competition. However, the evidence that public funding actually reduces corruption is ambiguous, perhaps because it is not known to what extent corrupt payments are used for personal enrichment or political campaigning.²¹ Since the value of political donations in the UK is overwhelmingly biased towards parties, not individuals, the anti-corruption potential of public funding should be relatively high. State capture and de-democratisation are such disasters that almost any reform that could help prevent them should be seriously considered.

Conclusions

We agree with Fisher’s positive assessment of the last twenty-five years of British political finance. Our new data tend to bolster his argument. The problem with the UK’s political finance system is not so much how it operates, but what could too easily happen. Allowing donations of any size risks inflating the cost of politics, distorting political competition, and corrupting governance. Denying parties meaningful public funding increases that risk yet further. Donations have not made British politics more expensive. There is a risk that they have distorted the political system. It is hard to disentangle whether donations have followed or boosted Conservative popularity. The Conservatives’ reliance on corporate donations makes them a greater corruption risk than the Liberal Democrats and Labour. However, very few companies bother to donate and hardly any have done so regularly, which suggests that there is little to be gained. Moreover, donors will tend to have more leverage when the distribution of donations is more concentrated, as it has been for the Liberal Democrats. These calculations matter most if donors are influence-seeking and it seems that most big donors

¹⁸ J. Hellman, G. Jones, and D. Kaufmann, ‘Seize the state, seize the day: state capture and influence in transition economies’, *Journal of Comparative Economics*, vol. 31, 2003, pp. 751-773.

¹⁹ L. David-Barrett, ‘Is the UK sliding into state capture?’, *Renewal*, vol. 30, no. 2, 2022, pp. 88-95.

²⁰ McMenamin and Power 2023.

²¹ S. Lipcean and I. McMenamin, ‘Rethinking public funding of parties and corruption: Confronting theoretical complexity and challenging measurement’, *Governance: An International Journal of Policy, Administration, and Institutions*, vol. 37, no. 2, 2024, pp. 537-559.

have been ideological supporters of parties rather than pragmatic actors. However, this has been a matter of trusting to the ‘good-chaps’ theory of government, which is not too far from hoping for continued good luck.

Political finance reform is not currently on the political agenda. Nevertheless, electoral volatility is on everybody’s minds and political finance reform is a way to partially insulate political parties against electoral volatility, as well as reducing the risks of inflation, distortion, and corruption. Maybe Britain needs a medium-sized political finance scandal that puts reform on the agenda of the Labour government.

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