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REPLACING ALLOWANCES FOR CANADA'S NATIONAL POLITICAL PARTIES?*

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SUMMARY

The Conservative government has repeatedly announced its desire to cancel the quarterly allowances paid by Elections Canada to political parties. In this paper, we examine alternative party finance mechanisms to cope with the revenue loss caused by eliminating the quarterly allowances. American data suggest that introduction of a taxpayer check-off system, as proposed in the 2004 Conservative Party platform, would replace only a small fraction of the revenue lost by cancelling the allowances. Canadian data show that increasing donor limits would also have only a small positive impact. Cancelling the allowances will definitely constrain parties and may force them to limit campaign activities.

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INTRODUCTION

On 27 November 2008, Finance Minister Jim Flaherty delivered a fiscal update containing a promise to repeal Elections Canada's quarterly allowances for federal political parties, which at the time amounted to $1.95 per year for each vote received in the previous election.[1] Currently, all parties that obtained more than 2% of the vote in the last election receive the allowances, but the Conservatives are less dependent upon them because of their more productive fundraising system (see Milke 2008). Although Mr. Flaherty presented the elimination of allowances as an economy measure to help cope with the fiscal effects of the recession, the opposition parties perceived it as an attempt to cut off their financial lifeline. The Liberals and NDP signed a coalition agreement and proposed a non-confidence vote that, with the support of the Bloc Québécois, would have defeated the Conservative minority government. Faced with the loss of power, Prime Minister Harper quickly abandoned the proposal to eliminate the allowances (although he suspended adjustments for inflation, thus freezing the amount at $1.95 per year per vote) and went on to save his government through a series of parliamentary manoeuvres (see Flanagan 2009, chap. 11).

The idea of eliminating or replacing the allowances, however, is not dead. Mr. Harper and other Conservative spokesmen have said they intend to include something along this line in their platform for the next campaign and will try to legislate it if they are re-elected. As Steven Fletcher, Minister of State for Democratic Reform, said, "We believe that political parties should support themselves with people who voluntarily donate to whichever party they wish to support."[2] Such a move would present serious issues for Canada's national political parties, for they are all now quite dependent on the allowances. All except the Conservatives receive more money from the allowances than they garner through their own fundraising, and even for the Conservatives the amount of the allowances is quite significant (see Milke 2008, table 5). This is not surprising, for the amendments to party fundraising brought in by the Liberals in 2003 cut parties off from their major historical sources of support — namely, contributions from corporations and large donations from individuals.

One of the authors of this Briefing Paper recently argued[3] that, if the allowances are to be discontinued, they should be partially replaced with other provisions to help party fundraising become more effective. As possibilities, he suggested raising the limit on personal contributions, raising the amount eligible for a tax credit, and instituting a taxpayer check-off system for small political donations, similar to that which exists in the United States. In this paper, we attempt to make the discussion more realistic by providing quantitative estimates of how much revenue these and other options might yield.

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[1] See Canada, Department of Finance, "Government of Canada Maintains Strong and Responsible Economic Leadership," Press Release 2008-095 (Ottawa: Department of Finance, 2008); online at http://www.fin.gc.ca/n08/08-095-eng.asp.

[2] Quoted in Mia Rabson, "Fletcher assigned to push funding cut for parties," ***Winnipeg Free Press***, 24 August 2009; online at http://www.winnipegfreepress.com/opinion/columnists/fletcher-assigned-to-push-funding-cut-for-parties-54488632.html.

[3] Tom Flanagan, "Cut the subsidy, then make it easier for parties to raise their own money," ***Globe and Mail***, 14 August 2009.

We take no position on the substantive issue of whether the allowances should be discontinued. Rather, we start from two observations: first, that the party in power has expressed its desire to cancel the allowances; and, second, that elimination without at least partial replacement is likely to be unfeasible because it would touch off a political firestorm, as happened in fall 2008. We then explore what various options might yield by way of substitution.

This sort of contingent analysis is an important part of policy study. Governments enact policies out of a complex mix of motivations that are often more about politics than policy. In that context, it is important for policy-makers to have information about the likely consequences of their choices. We do not presume to tell the federal government what the fiscal regime for political parties should be, but we can detail the fiscal impact of various policy changes, thus giving politicians and the public better information with which to debate the issues.

FINANCING POLITICAL PARTIES

The modern era of Canadian political party financing began in 1974, when Parliament passed a series of amendments to the *Canada Elections Act*. Those reforms established spending limits on national and local election expenses, generous tax credits for political contributions, stronger disclosure provisions, and reimbursement for a portion of election spending by parties and candidates who met certain qualifications. For the first time, Canadian political parties became substantially supported by taxpayer funds, both directly (through campaign rebates) and indirectly (through tax credits to contributors) (see Flanagan and Jansen 2009, 194-195).

In 2003, with little public consultation or input from opposition parties, the Liberal government introduced, and Parliament approved, Bill C-24, *An Act to Amend the Canada Elections Act and the Income Tax Act (Political Financing)*. The new law radically altered the sources of income for political parties in Canada by

- banning corporate and union contributions to national political parties;
- limiting such contributions to candidates and local party associations to $1,000 a year;
- imposing limits on individual contributions ($5,000 year adjusted for inflation);
- making the schedule of tax credits more generous in an effort to encourage individual giving; and
- increasing campaign rebates from 22.5% to 50% of national campaign expenditures (and to 60% in 2004).[4]

Most important, in the context of this paper, the new law introduced a generous system of publicly funded quarterly allowances to help replace the revenue lost from eliminating corporate, union, and high-end individual contributions. The annual value of the quarterly allowances paid directly to the national parties would equal the total number of votes received by a qualifying party in the previous election multiplied by $1.75 (Flanagan and Jansen 2009, 195-196).

[4] A legislated formula imposes a cap on national campaign expenditures (about $20 million in 2008 for a party that runs candidates in every constituency). After the election, parties can apply to Elections Canada for a rebate of 50% of documented expenses.

Only two years after Bill C-24's changes took effect, the newly elected minority Conservative government made further changes by introducing the *Accountability Act*, which banned corporate or union contributions to all party entities and candidates and decreased the individual contribution limit to $1,000. It maintained the quarterly allowances, however, even though the Conservatives had opposed the allowance system when it was established (Flanagan and Jansen 2009, 197).

As Table 1 shows, during the years from 2000 through 2003, the Liberal Party was by far the most successful at raising money from corporations, trade unions, and associations, and thus was the most likely to suffer relative disadvantage from the effects of Bill C-24, even though the bill was introduced by a Liberal government.

Table 1: Total Contributions to Major Federal Political Parties from Corporations, Associations, and Trade Unions, 2000-2003

PARTY	2000	2001	2002	2003	2000-2003
	(constant 2007 $)				
Liberal	13,101,019	6,691,023	5,448,848	11,339,963	36,580,853
Canadian Alliance	7,686,049	873,989	1,121,519	1,530,311	11,211,868
Progressive Conservative	2,843,576	1,478,274	1,076,865	1,168,986	6,567,701
New Democratic	3,225,986	1,511,464	1,121,680	5,308,675	11,167,805
Bloc Québécois	595,785	70,605	105,450	87,509	859,349
Green	0	1,075	1,600	63,300	65,975
Total	27,452,415	10,626,430	8,875,962	19,498,744	66,453,551

SOURCE: Elections Canada

Note: All conversions for inflation were calculated using the Bank of Canada's inflation calculator; Elections Canada data are reported in non-adjusted dollars.

Had individual contributions been limited to $5,000 in those years, Table 2 shows that the Liberal Party would have lost more than $640,000, or 3% of its income from individual donors, while the Progressive Conservative Party would have lost about $490,000, or 4.2% of its revenue from individual contributions. The Canadian Alliance, which raised considerably more money from individual contributions than did other parties, would have lost 2.1% of its revenue from individual donors. Overall, these amounts are very small compared with what the parties lost through being deprived of donations from corporations, unions, and other organizations.

Table 2: Revenue Losses of Major Federal Political Parties with $5,000 Limit on Individual Contributions, 2000-2003

PARTY	2000	2001	2002	2003	Total Lost, 2000-2003	% Lost
	(constant 2007 $)					
Liberal	139,052	92,306	102,701	313,559	647,619	3.08
Canadian Alliance	564,508	12,330	27,280	18,353	622,471	2.10
Progressive Conservative	221,982	108,132	101,883	17,430	490,518	4.21
New Democratic	48,432	27,820	142,975	73,605	292,832	1.43
Bloc Québécois	481	-	-	-	481	0.02
Green	0	-	-	17,987	17,987	3.62
Total	974,455	240,588	374,839	440,934	2,071,908	2.40

SOURCE: Authors' calculations from Elections Canada data.

Note: All conversions for inflation were calculated using the Bank of Canada's inflation calculator.

If we sum the amounts in Tables 1 and 2, and so add the money raised from corporations, associations, and trade unions to the amount parties would have lost had the individual contribution limit been $5,000, the total comes to more than $68 million, almost half of which, ironically, would have been lost by the Liberals, the authors of Bill C-24.

When we compare the amount parties would have lost over the last four years of the old system with the amount they received in quarterly allowances in the following four years, we see that no party was negatively affected, while some became significantly better off. Table 3 indicates that, between 2004 and 2007, Canada's five main parties received more than $105 million in allowances. In other words, the quarterly allowances alone represented an increase of almost $37 million, or 54%, in revenue for the parties compared with what they had raised from corporations, unions, and individual contributions over $5,000 in the preceding four years. According to Prime Minister Chrétien's policy adviser, Eddie Goldenberg, Bill C-24 was supposed to be more or less revenue neutral, leaving parties about as well off afterward as they had been before the new law was passed (Goldenberg 2006, 383). Obviously, however, the bill's authors overshot the mark in the course of the legislative process.[5]

[5] This increase in revenue was complemented by campaign rebates of 50% in 2004 and 60% thereafter, compared with 22.5% between 2000 and 2003. We did not add revenue from campaign rebates to the quarterly allowances, however, because the former depends on the frequency of campaigns. There have been three elections since 2004, so rebate revenue has been high in recent years; at the same time, of course, the parties have also had higher expenses from waging election battles.

Table 3: Quarterly Allowances Paid to Major Federal Political Parties, 2004-2007

PARTY	2004	2005	2006	2007	2004-2007
			(constant 2007 $)		
Liberal	9,774,908	9,498,080	8,770,143	8,517,049	36,560,180
Conservative	8,461,918	7,662,541	9,604,289	10,218,123	35,946,872
New Democratic	3,083,775	4,055,185	4,717,196	4,923,795	16,779,951
Bloc Québécois	2,923,325	3,203,396	3,018,857	2,953,218	12,098,796
Green	523,694	1,061,905	1,199,287	1,262,641	4,047,527
Total	24,767,620	25,481,107	27,309,772	27,874,826	105,433,326

SOURCE: Elections Canada.

Note: All conversions for inflation were calculated using the Bank of Canada's inflation calculator.

The relative impact of the quarterly allowances on each party has been different, but no party is worse off in absolute terms as a result of the new legislation. A comparison of the figures in the last column of Tables 1 and 3 shows that, between 2004 and 2007, the Liberal Party received almost exactly the same amount as it had raised from corporations, unions, and individual contributions in excess of $5,000 in the previous four years (in inflation-adjusted dollars), and so has profited very little from the legislative changes. On the other hand, the Bloc Québécois has profited greatly from the financing changes: over the four years from 2000 through 2003, the BQ raised less than $1 million from corporations or unions, but received more than $12 million in the following four years.

This outcome has incited criticism of the program from Canadians who believe that public money should not help support a party dedicated to an independent Quebec (see Milke 2008). We believe, however, that reform measures should not be driven by concern over the effect of systemic change on a single party. Designing rules that help or hinder a single party would set an unfortunate precedent and likely would not stop with measures directed at the BQ. Thus we want to focus here on the general impact of quarterly allowances on political parties, not their specific impact on particular parties.

From that point of view, our main finding is that the allowance system has channelled much more money (about 50% more) to Canada's main federal political parties than the parties have had to forgo by giving up corporate, union, and high-end personal contributions. This must be kept in mind when assessing the impact of any proposal to eliminate or replace the quarterly allowances. When party leaders say, as they surely will, that terminating the allowances would deprive them of needed revenue, one should remember that they were able to get along with considerably less money prior to 2004. Policy-makers will have to decide whether to keep the fiscal status quo created by Bill C-24, return to the status quo ante that prevailed through 2003, or aim at something in-between. Against that background, we now look at some possible replacements for the quarterly allowances to see how much revenue they might provide Canada's federal political parties.

TAXPAYER CHECK-OFF SYSTEMS

Both the Canadian Alliance and the Progressive Conservatives opposed the Liberal government's Bill C-24 in Parliament in 2003. The Canadian Alliance objected to the coercive nature of the allowances, in that money collected from all taxpayers would be given to political parties even though some taxpayers might not wish their money to go to particular parties. The Canadian Alliance's argument was that party fundraising should be based on personal, not governmental decisions. The Alliance also complained that the allowance system would be a barrier to new parties by offering financial support only to parties that had competed in the previous election. The Progressive Conservatives did not offer a critique based on principle; instead, they suggested that implementation should be delayed for two years so that a new election could be held in the meantime, thus giving a more up-to-date basis for financial support of the parties.[6]

In the 2004 general election, the Conservative Party of Canada, into which the Alliance and Progressive Conservatives had merged, promised to replace the party allowances with a taxpayer check-off system: "We will eliminate the current per voter annual subsidy for federal political parties. Instead, we will include a check-off box on taxpayers' T1 forms that will allow Canadians to direct a nominal amount towards the registered political party of their choice. This choice will not affect taxpayers' refunds or amounts owing" (Conservative Party of Canada 2004, 11). The Conservatives lost the 2004 election, and their 2005 and 2008 platforms were silent on the question of replacing party allowances. But it seems possible that, if a future Conservative government decided to cancel the allowances, it might go back to its 2004 proposal as the starting point for a replacement.

The best-known model for such a system is the taxpayer check-off system used in the United States as part of the public funding of presidential primary and election campaigns. Legislation of this type was first passed in 1966 but suspended a year later. The current system dates from 1971, though the details have been revised a number of times,[7] and differs in crucial respects from the 2004 Conservative proposal.

In the U.S. system's current form, tax filers can tick a box to give $3 of their tax liability ($6 for a married couple filing a joint return) to the Presidential Election Campaign Fund. In reality, taxpayers make a decision about the use of public money; ticking the box does not increase their tax liability or reduce any refund. Nor do they choose which candidate or party receives the donation; all money is divided among presidential candidates according to a formula. Accepting money from the fund also requires candidates to adhere to a spending limit, however, so that some candidates, including Barack Obama in 2008, choose instead to fund their campaigns totally from private contributions.

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6 Remarks by Ken Epp and Gerald Keddy, ***Hansard***, 9 June 2003; online at http://www2.parl.gc.ca/HousePublications/Publication.aspx?pub=Hansard&doc=114&Language=E&Mode=1&Parl=37&Ses=2#T1240.

7 See United States, Federal Election Commission, "Public Funding of Presidential Elections"; online at http://www.fec.gov/pages/brochures/pubfund.shtml.

From about 134 personal income tax million returns filed in 2006,[8] the presidential check-off generated about US$30 million. Nonetheless, the proportion of taxpayers that uses the check-off has declined sharply in recent decades: after reaching a high of 28.7% in 1980, it dropped to 7.3% in 2006.[9] Moreover, the fact that candidates are opting out suggests that the system needs to be revised if it is to continue. Common criticisms are that it does not generate enough aggregate revenue to fund modern presidential races, that the $3 contribution amount is too small (it has not been increased since 1993), and that there is little public encouragement for tax filers to tick the box.

Because the Canadian economy is about a tenth the size of the U.S., a straightforward extrapolation suggests that a similar program here might raise about $3 million a year, but the uncertainty is huge because Canadian rules might be very different from those of the U.S. model. A Canadian system to replace federal party allowances would authorize contributions to parties, not candidates, and taxpayers would direct their donations to their chosen party, not to an anonymous fund. Also, a Canadian taxpayer check-off could start off with a higher contribution amount — say, $5 or $10 — or it could include a variable scale of contributions. Also, it could receive initial publicity as a major reform of the political system to put control over political parties in the hands of taxpayers. Because Canadian political parties, unlike U.S. presidential campaigns, are continuing, long-term entities, they would probably develop programs to encourage their members and supporters to use the taxpayer check-off, thus bringing further pressure to bear. Canadians might be more willing to participate once they realized that cancellation of the allowances meant it was up to them to decide how parties would be supported, and that ticking the box would not cost them anything out of their own pockets.

Arizona offers an example of a fairly successful tax check-off system in its Citizens Clean Elections Funds program, established after a state-wide referendum in 1998. The fund generates revenues from a number of sources, including a $5 voluntary contribution from taxpayers who file a state income tax return. In return, taxpayers receive a $5 reduction in their tax liability. In 2008, the tax check-off system generated over US$6.5 million, with the participation of around 41% of the state's 2.2 million income tax filers (Arizona 2008, 75). The Arizona taxpayer check-off seems like a highly productive program, but we cannot extrapolate its results directly to Canada because it is embedded in a much larger set of reforms that are not on the agenda in this country.

[8] United States, Internal Revenue Service, ***IRS Data Book, 2007***; online at http://www.irs.gov/taxstats/article/0,,id=171961,00.html.

[9] Frederika Schouten, "Taxpayers elect not to pay for campaigns," ***USA Today***, 17 April 2007; online at http://www.usatoday.com/news/washington/2007-04-17-preztax_N.htm?csp=34.

Indeed, experience of taxpayer check-offs in other U.S. states makes it wise to be cautious in projecting revenue. In 2002, 41 states had a total of 210 check-off programs covering causes as varied as wildlife protection and philanthropy, as well as political subsidies, but these programs generated a total of only $32.8 million that year.[10] By 2008, the number of state-level check-offs had grown to 313, encompassing a wide range of designs — many involving reductions of refunds — and some administrators were blaming the proliferation of programs for declining returns to their own programs.[11] It has also been suggested that the declining participation rate of tax filers in check-off programs is due to the growth of electronic and professional tax-filing services, many of which do not prompt clients to choose whether or not to check off the political contribution box; one study of Minnesota's program estimates that almost US$8.5 million in potential contributions was lost in such a manner (Meyer 2008).

It is difficult to say what this experience implies for Canada. One interpretation is that these programs simply yield small amounts of money — all U.S. programs taken together, both state and federal, generate less than US$100 million annually. A single, highly publicized Canadian federal program, with no competition from provincial programs, might do better than its U.S. counterparts; but even incorporating all possible lessons from the U.S. experience, a Canadian program likely would provide less (perhaps substantially less) than $10 million a year, compared with roughly $27 million paid out annually under the current quarterly allowance system.

INDIVIDUAL CONTRIBUTION LIMITS

Currently, Canadian citizens and permanent residents are allowed to contribute a maximum of $1,100 ($1,000 adjusted for inflation since 2004) to a single political party; before the 2006 political financing amendments, the limit was $5,400 ($5,000 adjusted for inflation). One policy change that might help to replace party income lost from the elimination of the quarterly allowances is to increase the limit on individual contributions. One way to estimate the effect of reinstating the $5,400 contribution limit is by simulating the effect of lower contribution limits on party revenues between 2004 and 2006.

Since Elections Canada's database of contributions does not aggregate total contributions by individuals in a single year — for example, each of an individual's quarterly contributions of, say, $200 to a party would appear in the database separately — we collapsed the contribution list by contributors' names and the party they donated to in order to produce a useful list of contributors so as to simulate the effect of higher contribution limits on party revenue.[12] Table

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[10] Federation of Tax Administrators, "Check-off Programs See Strong Growth"; online at http://www.taxadmin.org/fta/rate/Checkoff03.html.

[11] Judy Keen, "Donations decline from taxpayer refunds," ***USA Today***, 9 April 2008; online at http://www.usatoday.com/money/perfi/taxes/2008-04-09-checkoffs_N.htm.

[12] Since Elections Canada does not include contributors' addresses in the exportable file, there might be some inaccuracies in the data. For example, if more than one individual with the same name contributed to, say, the Liberal Party, our aggregation method would be unable to distinguish among them. We are confident, however, that this weakness does not significantly affect our findings.

4 summarizes the results of our simulation. The first row is the total amount raised by the Conservative, Liberal, New Democratic, Green, and Bloc Québécois parties from individual contributors who gave more than $200 in a single year. The second row is the simulated amount if the 2007 contribution limit of $1,100 had been in effect. If a contributor gave a total of, say, $4,000 to a party in 2004, the simulation automatically reduces the contribution to $1,100.

Table 4: Actual and Simulated Revenue of Major Federal Political Parties from Contributors Who Gave More than $200, 2004-2006

	2004	2005	2006	2004-2006
	(constant 2007 $)			
Actual	13,174,467	21,311,061	20,664,816	55,150,344
Simulated	11,314,066	17,612,258	18,402,884	47,329,208
Difference	–1,860,400	–3,698,803	–2,261,932	–7,821,135

SOURCE: Elections Canada.

Note: All conversions for inflation were calculated using the Bank of Canada's inflation calculator.

The simulation is intuitive because it does not assume any change in behaviour. Instead, it uses actual giving patterns in the past to predict what would have happened if contribution limits had been lower. The findings clearly show that, all else being equal, even with higher individual contribution limits, parties would not be able to make up the revenue shortfall caused by cancelling the quarterly allowances. If the current contribution limit of $1,100 were raised to the previous limit of $5,400, the total amount raised by the four main political parties would be only an additional $2-3 million dollars, with the main beneficiaries being the Conservative and Liberal parties.

Currently, the amount of political contributions eligible for tax credit is $1,275, which exceeds the $1,100 contribution limit to national parties. Contributors may use the difference of $175 to obtain a tax credit for contributions to Electoral District Associations or constituency campaigns. Without access to personal income tax data from Revenue Canada, we cannot simulate the impact of raising the political contribution amount eligible for tax credit. But practical experience has taught Canadian political fundraisers that tax credits are crucial for stimulating small donations but that they are not so important at the upper end: individuals who can afford to give $5,000 to a political party are not motivated primarily by the prospect of a tax credit. We assume, then, that making the rules for tax credits more generous might add, at most, $1 million to the amount generated by raising the contribution limit to $5,400.[13]

[13] This is admittedly a rough estimate — little better than a guess. Yet we do believe that the tax credit and higher contribution limit would stimulate marginally more contributions.

CORPORATE, ASSOCIATION, AND UNION CONTRIBUTIONS

Since increasing the contribution limit for individuals would not close the gap in party revenue lost by eliminating the quarterly allowances, what about legalizing limited corporate, association, and union contributions? Prior to 2004, Canada's political parties could accept unlimited amounts of money from such bodies, which led to the perception that they were having an inordinate influence on the political system and to part of the justification for the introduction of Bill C-24. We recognize the political sensitivity of unlimited contributions from these bodies, but capping such contributions at the same level as those of individuals might not create the same perception of influence peddling as an unlimited amount. To test the potential revenue gained from setting corporate, association, and union contribution limits at $5,000 and $1,000, we ran a simulation using contributions over $200 from these bodies in 2001.[14] The results of the simulation are shown in Table 5 ($5,000 limit) and Table 6 ($1,000 limit). Overall, the combined income from corporate, association, and union contributions in 2001 to Canada's main political parties exceeded $11.8 million. The simulated results show that allowing contributions from such sources once again could help reduce some of the revenue lost if quarterly allowances were eliminated. If the contribution limit were set at $5,000 and corporate, association, and union giving remained similar to what it was in 2001, the parties would take in around $7 million, while a $1,000 contribution limit would yield about $3 million. Corporate, association, and union giving was always lower in non-election years than in election years, however — in 2000, for example, they gave about $32 million compared with only $12 million in the non-election year of 2001 — so contributions from these sources could be substantially higher over a period of time that included one or more election years.[15] Nonetheless, a limit on annual contributions would restrict such differences in total funds raised: the likely result of reinstating such contributions with a contribution limit would be for these sources to maximize their annual contributions, thereby coming closer to the consistent flow of money that the quarterly allowances provide. Therefore, we are confident that the simulated figures represent potential party revenue if corporate, association, and union contributions were once again legalized, albeit with limitations on the size of their contributions.

Table 5: Actual and Simulated Revenue of Major Federal Political Parties from Corporations, Associations, and Unions that Gave More than $200 in 2001, $5,000 Limit

	Liberal	Canadian Alliance	Progressive Conservative	New Democratic	Bloc Québécois	All Parties
Actual (no limit)	7,577,289	974,392	1,592,477	1,619,656	116,043	11,879,858
Simulated ($5,000 limit)	4,852,997	691,556	1,008,764	320,152	90,411	6,963,879
Difference	–2,724,293	–282,836	–583,713	–1,299,504	–25,632	–4,915,978

SOURCE: Elections Canada.

[14] Bill C-24 considers union locals to be part of a single union and any money they contribute is counted as part of the contribution of the union as a whole. Prior to the passage of that legislation, locals could give independently of the national or provincial union, a rule we kept in our simulation as we believe it would allow greater parity between corporate and union contributions.

[15] Elections Canada does not have easily accessible data for 2000 with which to test this assumption.

Table 6: Actual and Simulated Revenue of Major Federal Political Parties from Corporations, Associations, and Unions that Gave More than $200 in 2001, $1,000 Limit

	Liberal	Canadian Alliance	Progressive Conservative	New Democratic	Bloc Québécois	All Parties
Actual (no limit)	7,577,289	974,392	1,592,477	1,619,656	116,043	11,879,858
Simulated ($1,000 limit)	2,094,166	304,915	448,748	184,947	54,924	3,087,700
Difference	–5,483,123	–669,478	–1,143,729	–1,434,709	–61,119	–8,792,158

SOURCE: Elections Canada

DISCUSSION

The current value of the quarterly allowances, based on the 2008 election, is $26.7 million — that is, 13.7 million votes cast for five eligible parties multiplied by $1.95 per vote. Our best guess is that implementing all the measures we have discussed — that is, a taxpayer check-off program, an individual contribution limit of $5,000 (annually adjusted for inflation), more generous tax credits for political contributions, and corporate, association, and union contributions allowed but capped at $5,000 — would raise, at most, about three-quarters of the value of the current quarterly allowances, and perhaps considerably less than that. Because a taxpayer check-off, which would probably generate the most revenue of these measures, would be a completely new venture for Canada, it is impossible to say with any certainty what it would yield. On the other hand, it is possible that Canadians would become more generous in their support of political parties once they understood that direct public support had been cut off.[16] Because individual behaviour is involved, the results of reform cannot be known until legislation is passed and implemented.

A likely consequence of reform, then, is that parties would have to make do with less money each year. It is beyond the scope of this paper to debate whether national political parties could fulfill their functions with fewer financial resources; but it is worth repeating that the introduction of quarterly allowances in 2004 made parties at least 50% better off than they had been in previous years, even after accounting for the loss of corporate, union, organizational, and high-end contributions.

One consequence of the quarterly subsidies has been to create a measure of stability and predictability in party finances — parties now know their minimum funding base — but has predictability made governing parties more likely to call an election or opposition parties to bring down a minority government? It is quite clear that the quarterly allowances and lower contribution limits have hurt the Liberal Party in relation to its competitors; and despite much talk, the Liberal Party has not actually forced an election since Paul Martin called on the governor general in June 2004, before it was clear that Bill C-24 would limit that party's fundraising capability. In contrast, the parties that have benefited the most from the reforms (the Conservatives and the BQ) seem to have been the least afraid of an election — the Conservatives and the BQ voted to defeat the Liberal government in both spring and fall 2005, and the Conservatives requested an election in September 2008 — perhaps partly as a result of their gaining more secure financing.

[16] Indirect public support would still exist through tax credits for individual contributions as well as partial rebates to national and local parties for campaign expenditures.

Under the current fiscal regime, parties are shifting to a "permanent campaign" model, involving costly pre-writ advertising as well as other expenses such as keeping planes, busses, and war rooms continuously available (Flanagan and Jansen 2009, 207, 212). The better-funded Conservatives were the first to embark on this strategy, but the Liberals, with their summer 2009 advertising campaign, have now followed suit.[17] Would Canadians object if political parties were deprived of public sector financial resources that allowed them to campaign virtually all the time? Returning to the *status quo ante* of 2001-2003 might not be a bad thing if it meant parties were less prepared for frequent elections. The perhaps insuperable challenge for policy-makers, however, would be to reduce overall funding for parties without creating consequences that favoured one party over another.

CONCLUSION

Eliminating or replacing the quarterly allowances Canada's federal political parties now receive would involve several difficult policy choices. Enriched as they were by Bill C-24, the parties clearly could withstand some belt tightening, but how much? Eliminating but not replacing the quarterly allowances might cripple party organizations. If this approach seems too extreme, the impact could be mitigated by permitting parties to obtain financing from other sources. However, the one replacement measure that the prime minister has mentioned with favour — a taxpayer check-off system modelled on U.S. experience — has unknown application in the Canadian context and seems unlikely to replace more than 40% of the quarterly allowance revenue, and perhaps a good deal less. Other possible replacement measures — high-end personal contributions and donations from corporations, associations, and unions — were rejected by all parties in Parliament when they voted for the Liberals' Bill C-24 and the Conservatives' *Accountability Act*.[18] If such fundraising measures were to be reintroduced, some, perhaps all, parties would have to change deeply entrenched positions on the fiscal regime for political parties.

Whatever strategy is adopted, it should be undertaken by all-party consensus, which is the older Canadian tradition of dealing with legislation on political party funding. When the Liberals decided to push ahead with Bill C-24 over the objections of the Canadian Alliance and Progressive Conservatives, they inaugurated a still-growing tendency to treat the issue in partisan terms. In turn, the Conservatives' *Accountability Act* arguably was punitive for the Liberals, even though all parties ultimately approved it. Prime Minister Harper's attempt to abolish the quarterly allowances in fall 2008 ignited a political firestorm that almost caused his government to fall. If there is to be further reform, it would be best to depoliticize the issue by bringing forward a package of moderate measures that could command wide support.

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[17] See Les Whittington, "Liberals' soft ad approach questioned," ***Toronto Star***, 26 September 2009.

[18] The Canadian Alliance and Progressive Conservatives voted against Bill C-24 but did not oppose the principle of removing corporate, association, and union contributions to political parties.

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