

Election Finance Law and Party Centralization in Canada

David Coletto, University of Calgary
Harold Jansen, University of Lethbridge
Lisa Young, University of Calgary

Paper to be presented to the 2009 Annual Meeting of the Canadian Political Science Association, Carleton University, May 27-29 2009.

The authors gratefully acknowledge financial support from the Social Sciences and Humanities Research Council of Canada in the form of a Standard Research Grant.

DRAFT ONLY: Please do not cite without authors' permission

Direct correspondence to Lisa.Young@ucalgary.ca

Recent accounts of Canadian political party organization identify stratarchical relationships between national and local party organizations as a defining characteristic (Carty 2002; Carty 2004; Carty and Cross 2006). According to Carty, constitutional and other internal party documents define and incorporate the stratarchical bargain, analogous to the franchise contract in business (Carty 2004, 13). In this paper, we suggest an additional indicator – internal financial flows – which may help to identify with greater precision the degree of mutual autonomy of the two levels of party organization. While constitutional and other party documents can identify the *de jure* powers of the two levels of organization, the *de facto* relationship is best understood by also taking into account the degree of relative financial autonomy. Put simply, party organizations cannot be autonomous of one another if they are dependent on the other level to meet their financial needs.

In this paper, we identify four models of internal party financial flows that correspond to different models of internal party organization. We then trace the financial flows into and within the four major Canadian political parties with a view to identifying the model of party organization that these flows indicate. Our evidence in some respects supports Carty's assertion that Canadian parties are stratarchically organized, but it also suggests that changes to the regulatory regime governing political finance have contributed to a centralization of power at the level of the national party and at the expense of candidates and local associations. This centralizing tendency is significant, as it may disrupt the bargain that underlies the stratarchical organization of Canadian parties.

The Local-National Balance in Canadian Political Parties

Canadian elections are simultaneously national events and the sum of 308 individual contests among candidates in geographically delimited areas. This latter dimension creates a functional requirement for political parties to organize themselves into units that correspond with these electoral districts. In some respects, local party entities and the candidates they support pre-date national political parties, at least in their extra-parliamentary form. It was only in 1970 that national political parties were recognized in the *Canada Elections Act* in order to allow candidates to indicate their party affiliation on the ballot (Courtney 1970). Local party organizations, now regulated by the *Canada Elections Act* and termed Electoral District Associations (EDAs) vary tremendously in their vitality, depending on geographic, socio-economic and political factors (Carty and Eagles 2005, 3-10).

Within Canada's national parties, the relationship between the national party and its local associations and candidates is a critically important aspect of party organizations. With the exception of the NDP, Canadian political parties are not confederal in their organization, and provincial parties are in most cases organizationally distinct from federal parties sharing the same name. The Liberal Party of Canada has provincial associations (distinct from provincial Liberal parties) but these have waned in importance in recent years.¹ The *Canada Elections Act* does not recognize provincial party organizations; consequently, local associations, candidates and the national party organization and its leader are the key legal players in party organization.

¹ The Green Party also has provincial associations. Because it has not elected any candidates to Parliament, it is not included among the major parties in this paper.

Carty (2002, 2004) argues that Canadian parties have accommodated geographic diversity through a bargain between national and local faces of the party. As Carty and Cross (2006, 98) describe the bargain:

“the party in public office determines both parliamentary and electoral policy and disciplines its membership: the party on the ground determines just who becomes (and stays) a member of the party in public office. ... Put crudely, the party in public office controls policy, the party on the ground controls personnel, and the genuine authority each has in its own sphere of autonomous decision-making allows both to play a major part in the internal life of the party.” (Carty and Cross 2006, 98)

This bargain underpins the stratarchical relationship that has emerged within Canadian political parties. For Carty, this is set out in party documents which serve as a “contract that defines and incorporates the stratarchical bargain between the key elements in a party’s organization, addressing the central questions as to what extent this imperative structures its organization...and just how it is expressed and organized.” (Carty 2004, 13) . Paradoxically, however, national party organizations in Canada appear to enjoy considerable formal power over their local units. The *Canada Election Act* requires that party leaders sign the nomination papers of candidates; this gives party leaders an effective veto over EDA’s selection of candidates. Likewise, the *Act* allows party leaders to decertify EDAs under certain circumstances. Although these powers are seldom used, they nonetheless give the national party the upper hand, at least *de jure*. As Carty and Cross (2006) point out, however, the local control over personnel prevents the party on the ground from being either manipulated or isolated. Local party organizations are typically ferocious in their protection of their traditional prerogatives.

But can such stratarchical relationships persist if one ‘face’ of the party is financially dependent on the other? In the past, this may have been a moot point. Writing about the period before the 2004 reforms, Carty and Eagles (2005, 97-8) note that “more money is spent on the parties’ constituency election campaigns than on their highly developed and carefully planned national campaigns, but the national party organizations contribute very little to these local efforts, and there is only a limited integration of the two campaign levels.” They find evidence that in the 1990s, some of the national parties subsidized local campaigns, although in a non-strategic fashion, while others did not. In the context of a radically revised regulatory regime, these conclusions need to be revisited.

The Regulatory Regime

The foundation for the Canadian regulatory regime governing party and election finance was laid in 1974, when Parliament passed a series of amendments to the *Canada Elections Act*. These reforms established spending limits for both political parties and candidates, requirements that parties and candidates disclose the source of all donations over \$100 as well as total amounts spent during campaigns, reimbursement of a portion of election expenditures by parties and candidates who met certain qualifications, and establishment of a political contribution tax credit that provided a significant tax credit for small donations from individuals (for details, see Young 2004).

Over the subsequent three decades, this initial regulatory framework remained largely intact, with minor legislative changes to thresholds and formulae for reimbursement, thresholds for disclosure, and the value of the political contribution tax credit. In 1982, the *Charter of Rights and Freedoms* was entrenched in the Canadian constitution, opening the door for tests of the constitutionality of several provisions of the *Canada Elections Act*; as a result, the Courts became a significant source of change in electoral law over this period. The two most notable instances of this are the *Figuroa* decision, which struck down the requirement that a party run candidates in 50 electoral districts in order to qualify for registered party status, and a series of decisions regarding third party advertising.

In 2003, the Liberal government introduced Bill C-24, which effectively implemented a new regulatory regime governing party and election finance in Canada. Unlike the 1974 legislation, which had support from the three major parties in Parliament at the time, this bill was introduced without prior consultation with the opposition parties and was passed without all-party support. This legislation moved Canada from a regulatory regime that relied heavily on spending limits and offered moderate levels of state support to parties and candidates to a more comprehensive regime that combined spending limits with limits on the size and source of contributions, allowing entities other than individuals to make contributions only at the local level, and to a maximum amount of \$1000 per annum. Individuals could contribute a maximum of \$5000 per annum to each registered party, its local associations or candidates. The legislation also instituted significant state funding for parties, to be delivered quarterly based on the number of votes the party received in the most recent election. The legislation also extended the regulatory regime into matters previously considered the private affairs of political parties, by instituting limits on contributions to and spending by candidates running for a party's nomination in an electoral district and limits on contributions to candidates running for a party leadership. These changes came into effect in 2004. Only two years later, the newly elected minority Conservative government introduced and passed its *Accountability Act* which banned all contributions except those from individuals and further reduced the maximum amount an individual could contribute to a registered political party in one year to \$1000. The current regulatory regime is summarized in Table 1 (see also Elections Canada 2008).

These legislative changes have had significant effects on party organization and party competition in Canada (Young *et al* 2007). Considerable variation in fundraising capacity has affected the competitiveness of parties at the national level, with the Conservatives enjoying a significant advantage over the Liberals in the first half decade under the new rules. Parties have had to reorganize their internal structures to comply with the law, in some instances reworking the role or formal relationships with provincial entities.

Table 1: Summary of Regulation of Party and Election Finance in Canada

Transparency

- Reporting names of all contributors over \$200, including contributions to nomination and leadership contestants
- Reporting party, candidate, nomination candidate and leadership candidate election expenses
- Reporting contributions to registered 'third parties'
- Reporting expenditures by registered 'third parties'
- Reporting assets held by electoral district associations

Spending Limits

- Candidates' election expenses (based on number of electors in district)
- Registered political parties election expenses (based on number of candidates running for party)
- Registered 'third party' election expenses (\$3666 in an electoral district; \$183,300 nationally)
- Candidate nomination expenses (20% of election spending limit for electoral district)

Public Funding

- Political Contribution Tax Credit (75% credit on contributions up to \$400, sliding scale on larger contributions)
- Election expense reimbursements:
 - 60% for candidates winning at least 10% of popular vote
 - 50% for registered parties (winning 2% of national popular vote or 5% of vote in districts where the party ran candidates)
- Per vote quarterly allowance to registered political parties winning 2% of national popular vote or 5% of vote in districts where the party ran candidates

Contribution Limits

- Only Canadian citizens/permanent residents can make political contributions, in the following amounts:
 - Maximum \$1100/annum to each registered party
 - Maximum \$1100/annum in total to various entities of each party (registered association, nomination contestants, candidates)
 - Maximum \$1100/annum to each independent candidate in a particular election
 - Maximum \$1100 in total to leadership contestants in a particular leadership contest

Financial Flows in Canadian Parties

The contemporary regulatory regime limits both the size and source of contributions to political parties; this in turn requires that contributions flow into parties in one of three ways: as a contribution to the national party, as a contribution to the Electoral District Association, or as a contribution to a candidate during an election campaign. This is represented graphically in Figure 1. The *Canada Elections Act* allows any individual Canadian citizen/permanent resident to contribute a maximum of \$1100 to each national party and a second \$1100 to any combination of EDAs, candidates and nomination campaigns for that party. Money can then flow from any one of these entry points to any other entity. During an election campaign period, the money donated at the local level would flow primarily to candidates; between elections, money donated at the local level can flow only to the EDA as the candidate ceases to be able to raise funds legally.

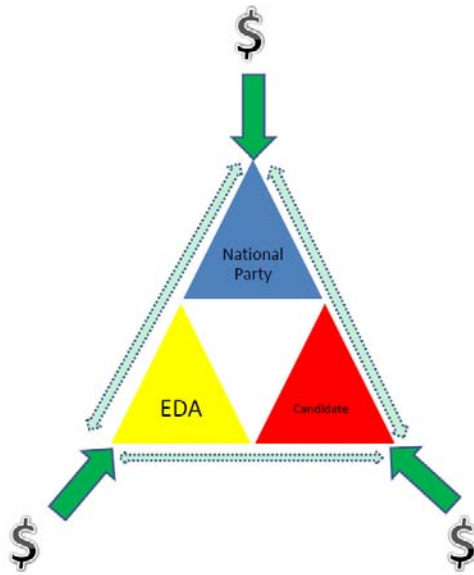
Transfers of funds between levels of a party are complex, with money transferred between different levels for a variety of purposes. National party organizations may transfer money to local EDAs as incentive to engage in certain practices, or to selected candidates to increase the likelihood of winning a targeted seat; likewise, the national party may tax candidates' election expense rebates or serve as a conduit for inter-regional transfers of funds. While we are unable to capture the full complexity of these transfers in our model, we use the indicator of net transfers as a means of determining the overall direction of flow of transfers between local and national party organizations. Net transfers are calculated as follows:

$$(\sum \text{transfers from national party to EDAs} + \sum \text{transfers from national party to candidates}) - (\sum \text{transfers from EDAs to national party} + \sum \text{transfers from candidates to national party})$$

for all the party's registered EDAs and candidates in a given year.

We contend that the examination of net transfers provides a meaningful approximation of the actual flow of funds within parties. While there is some possibility that money intended for the EDA might be receipted nationally and then delivered to the EDA as a transfer, such a practice is discouraged by the legislative arrangements that allow donors to give a maximum at the national and at the local level. A party that issued a receipt at the national level for a donation intended for one of its EDAs would then prevent the donor from giving money to the national party in that year.

Figure 1: Basic Model of Party Income



To structure our discussion of the flows of money into and within parties, we have identified four potential models as ‘ideal types.’ Within each model, we identify the relative fundraising and income balance between national and local units, as well as the predominant direction and relative magnitude of transfers between national and local party organizations.

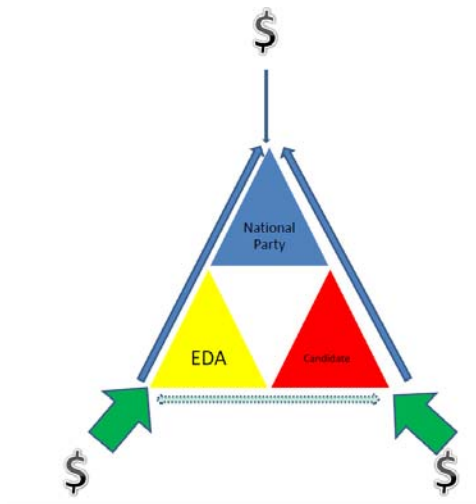
Given the significant regional variations in party support in Canada, there is every reason to expect regional variation in the patterns of party fundraising and intra-party transfers. Where parties are weak on the ground, the national party may step in to provide financial support to candidates and campaigns. A party may be predominantly stratarchical in its organization, but more closely approximate one of the models of centralized organization in its relationship to local entities in one or more regions. Furthermore, the relationship may vary at different times in the electoral cycle, with money flowing predominantly one way during election years and another way in non-election years.

Model 1: Branch Party

The first model is, in practical terms, the least probable. It is, however, a logical possibility and is included to acknowledge this. This first model, the branch party, occurs when local party organizations are the primary generators of income. In this respect, we can imagine the model to approximate a genuine financial franchise arrangement, in which the local outlets generate most of the revenue, a portion of which they transfer up to the national entity to pay for product development and mass advertising. We will not use the terminology ‘franchise party’ to describe this model, however, as Carty employs the term to describe a party organization in which stratarchy is the key organizational relationship. A key characteristic of the branch model would be a consistent upward net flow in funds. In such a model, the national party is incapable of fulfilling its electoral and other functions without transfers from the local level. Such a situation might emerge under circumstances in which local parties

have superior fundraising capacity relative to the national party, or if a public funding regime were tailored to transferring state funds predominantly toward candidates and/or local party associations.

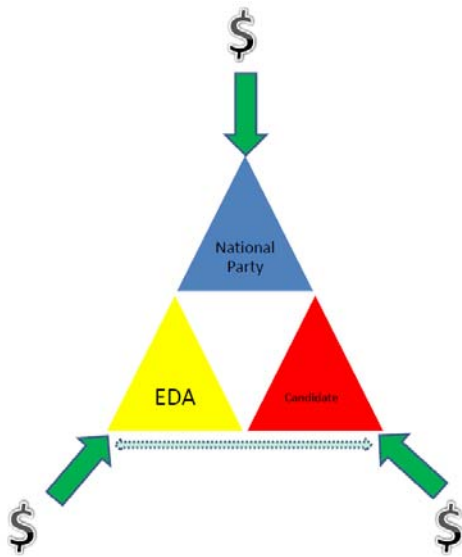
Figure 2: Branch model



Model 2: Stratarchical Relationship

This model reflects a genuinely stratarchical financial relationship between local and national entities within political parties. Local EDAs and candidates raise sufficient funds to maintain local party organization and contest election campaigns in the constituencies, and the national party is able to derive adequate income from either private or public sources to fulfil its assigned functions and mount competitive national election campaigns. While money might be transferred between the national and local levels, net transfers would be small relative to party income, and over a number of years there would not be evidence of significant net transfers in a single direction. In this stratarchical financial relationship, local entities are not reliant on the national party nor is the national party financially dependent on local entities. The absence of relationships of financial interdependence allows both levels genuine organizational autonomy, as the threat of withdrawing financial support cannot be used as a means of influencing the other entity's behaviour. In short, mutual financial independence should be seen as a necessary (but insufficient) condition for terming a party's internal organization stratarchical.

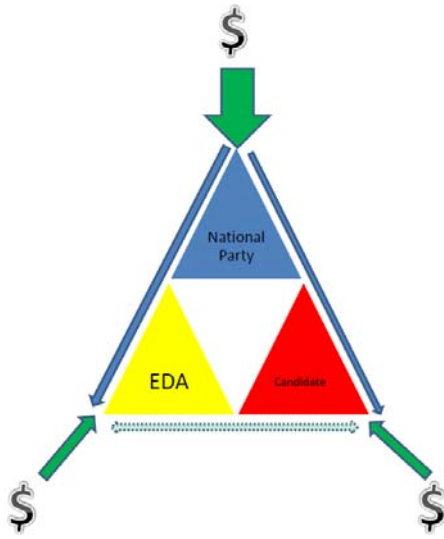
Figure 3: Stratarchy



Model 3: Centralized Funding

In both this model and the state-dependent centralized funding model, the national party is wealthy relative to the local entities. Because local entities cannot (or are not permitted to) raise enough money to maintain local organization and run local campaigns, the national party regularly transfers money to its local entities. In the pure centralized funding model (see Figure 4), the national party is better equipped than local entities to raise funds. This may be a function of the fundraising capacities of the two sets of actors – for instance, in a fundraising environment in which large donations from corporations or unions are the primary source of funding, we would expect the national party to be the primary fundraiser. Likewise, in an environment in which fundraising is conducted primarily through direct-mail, telephone or Internet solicitation, only the national party will enjoy the economy of scale that allows fundraising to be done effectively. That said, national parties that enjoy a hierarchical relationship with subordinate local entities may simply place limits on the ability of the local entities to engage in fundraising activities, for example by making significant donors or classes of donors ‘off limits’ for fundraising activities. In other words, a national party that regularly transfers funds to its local entities is likely to treat local entities as subordinate, whether that hierarchical relationship is a product of different fundraising capacities or is the source of differentials in the ability to raise money.

Figure 4: Centralized Fundraising



Model 4: State-Dependent Centralized Fundraising

The fourth model, State-Dependent Centralized Funding, is similar to the prior model except in the primary source of funding for national parties. In this model, national parties are reliant on funding from the state. When parties turn to the state to fund their activities, it is generally the national parties and party leaders who shape the legislation; they are able, then, to ensure that the national party benefits in the method for allocating the state funding. This was not the case in Canada in 1974, when state funding took the form of reimbursement of 50% of election expenses for candidates, with a less generous formula for reimbursement of national parties' election expenses. More recent reforms to the electoral finance regime, however, have enriched the reimbursement of election expenses for national parties and have delivered regular inter-election funding to the national party organization.

Data

We test the above theoretical models of party financing by using data made available from Elections Canada for the years 2004 to 2007. 2004 was the first year in Canada in which detailed financial data were made available for registered electoral district associations. As a result, we can now build a full financial understanding of all components of a political party's organization including the national party, the candidate, and the local party. Reporting includes transfers and fundraising during the entire post-C-24 period (2004-2007). During this time Canada has held two general elections which allows us to capture activity in two non-election years and two election years. To assess the true fundraising value, we calculate the net fundraising for each component by subtracting reported fundraising costs from the reported contribution figures. Total national party income includes only contributions and, after 2004, the direct state subsidy figures. Neither membership fees nor election expense reimbursements were included in the total and all figures were converted into 2007 dollars according to Canada's CPI.

In terms of internal party transfers, a net figure was calculated between each component of the party organization. For example, if the national party transferred \$2 million to the local electoral district

association and that electoral district association transferred \$0.5 million to the national party, the net transfer down equalled \$1.5 million.

Findings

Analysis of aggregate data from 2004 to 2007 reveals differences in the revenue sources and internal money flows among Canada’s four main political parties. Table 2 summarizes three key indicators of party income and internal party transfers. Overall, the national-local fundraising ratio (column 1) fundraising among the party’s components was more centralized in the national component of the Conservative and New Democratic parties. In both parties, the national party raised considerably more money than its candidates or local party organizations. In comparison, the Liberals and BQ were more decentralized, as their local units (candidates and EDAs) raised more money than the national party.

However, once the direct state subsidies are included as national party income, the national-local income ratio changes considerably. Moving from the least decentralized to most centralized, from 2004 and 2007, the BQ’s income flowed predominantly into the national party. Moreover, the BQ also heavily subsidized its local components with net transfers down from the national to local party units equally 74% of the total money raised locally. The NDP also raised a majority of its income through the national party and it too transferred a relatively large proportion of local party financing down from the national party (49%).

Table 2: Party Finance Summary, 2004-2007

	Fundraising National/Local Ratio	Total National/Local Ratio*	Income Net transfers down as % of total raised locally
Conservative	1.29	2.43	29%
Liberal	0.88	2.19	14%
NDP	1.20	2.72	49%
BQ	0.64	3.53	74%

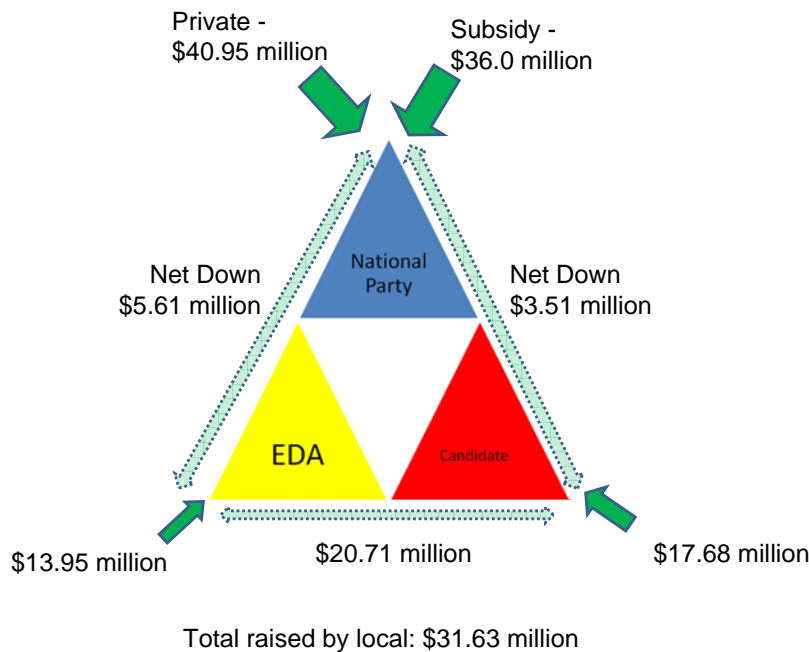
* Includes all fundraising and direct public state subsidies

In comparison to the BQ and the NDP, the gap in the national-local income ratio for the Liberal and Conservative parties was smaller. However, as with the BQ and the NDP, direct public subsidies substantially centralized party income for the Liberals and Conservatives. Unlike the BQ and the NDP, the Conservative and Liberal parties’ local units were less dependent on national party funds. The Liberal Party’s net transfers down to its local units equalled only 14% of all funds raised by its local units, while the figure was 29% for the Conservative Party. Clearly, the NDP and BQ’s party financing model was far more centralized than that of the Liberal and Conservative parties. A detailed look at each party’s financing model will highlight these differences.

Conservative Party, 2004-2007

Figure 5 displays the financing summary for the Conservative Party of Canada. Although media attention has focused on the immense fundraising totals for the national party, when the fundraising cost is taken into consideration, the national party raised a little more than \$9 million more than either Conservative EDAs or candidates between 2004 and 2007. Moreover, the Conservative Party's net flow of money from the national to local units of the party was only 29% of the total money raised by the local units. While still a substantial amount of money, the internal money flow indicates that since 2004, the Conservative Party's finances match most closely the stratarchical model detailed above. The national and local units of the party were able to raise an adequate amount of money to support their respective responsibilities. Even with additional money from the annual party allowances, the Conservative Party did not transfer significant amounts down to its local party units indicating that each component was relatively self-sustainable.

Figure 5: Conservative Party Aggregate Fundraising and Internal Money Flow, 2004-2007

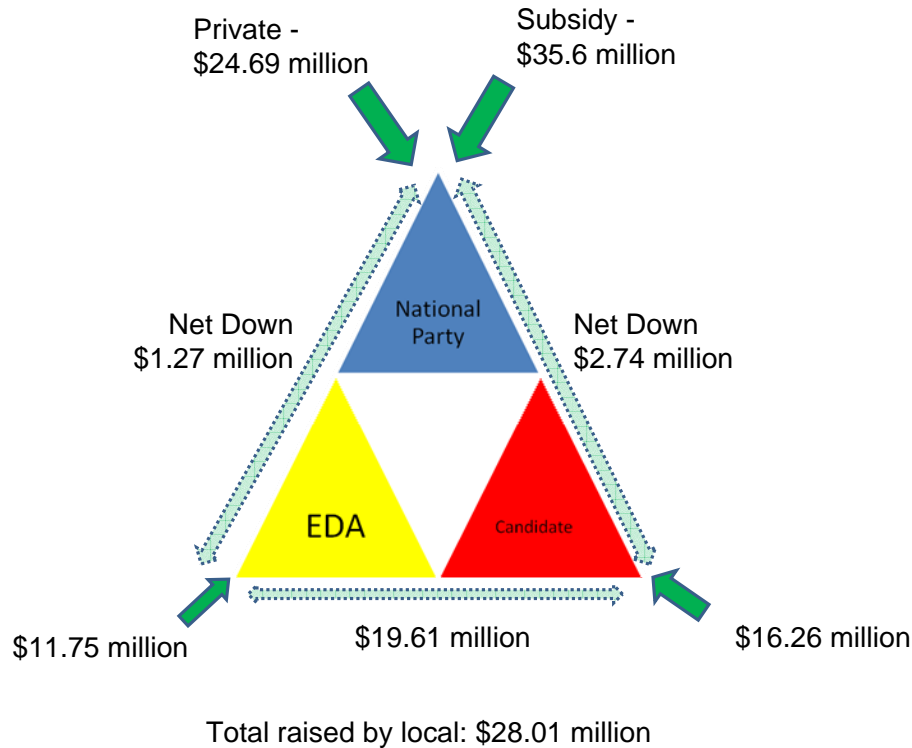


Liberal Party, 2004-2007

Comparatively, while the Liberal Party raised significantly less money than the Conservatives nationally, the internal money flow and fundraising by its local units looked quite similar to that of the Conservative Party. Figure 6 shows that from 2004 to 2007, the Liberal Party's local units (EDAs and candidates) raised more money than the national party (excluding annual allowances and reimbursements). While still transferring more down to local components than those components transferred up, the local units of the Liberal Party did not rely, or could not rely, on the national party for significant financial support. The Liberal Party's net flow of money from the national to local units represented only 14% of the total funds raised by either the party's electoral district associations or its candidates. As such, the Liberal

Party's finances during the 2004 to 2007 period aligns more closely to the stratarchical model, more so than the Conservative Party - where transfers down represented 29% of total locally raised funds.

Figure 6: Liberal Party Aggregate Fundraising and Internal Money Flow, 2004-2007

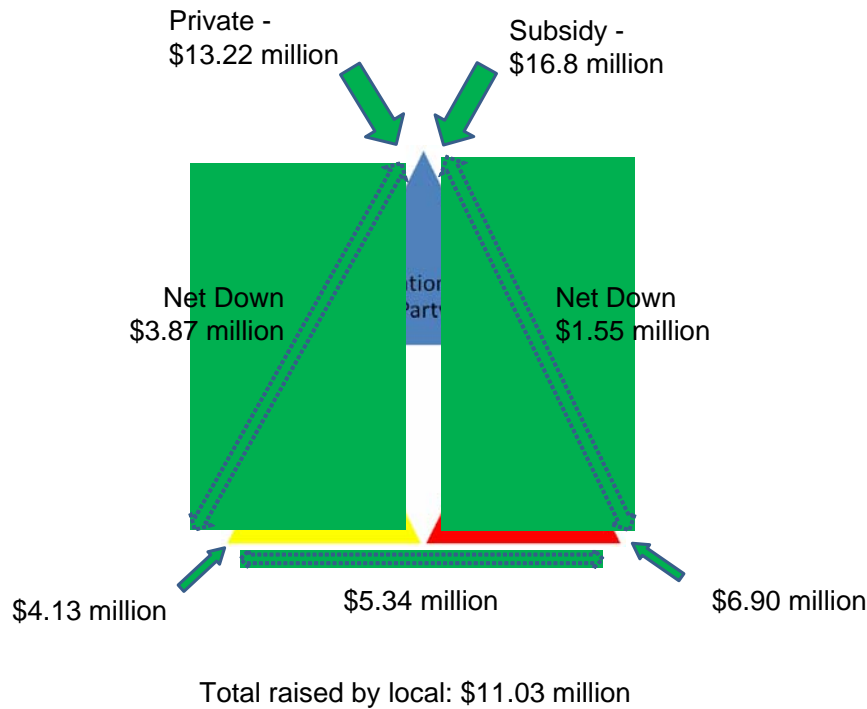


New Democratic Party, 2004-2007

In comparison to both the Conservative and Liberal parties, the NDP total net fundraising from 2004 to 2007 was substantially less and the local units relied more heavily on the national party for financial support. As Figure 7 indicates, NDP inflows resembled patterns found in the Liberal and Conservative parties. The national party raised approximately \$13.2 million from contributions, while the local units raised \$11.0 million. Neither level of the party raised substantial more money than the other.

However, in comparison to the Conservative and Liberal parties, the NDP transferred relatively more money down to its local units. All in, the NDP's net transfer down to local party units represented 49% of all money raised by its local units (\$11.03 million), 34 percentage points higher than the Liberal Party and 20 percentage points higher than the Conservative Party. This pattern of internal financial transfers and party inflows places the NDP somewhere in between the stratarchical and centralized models of party finance.

Figure 7: New Democratic Party Aggregate Fundraising and Internal Money Flow, 2004-2007



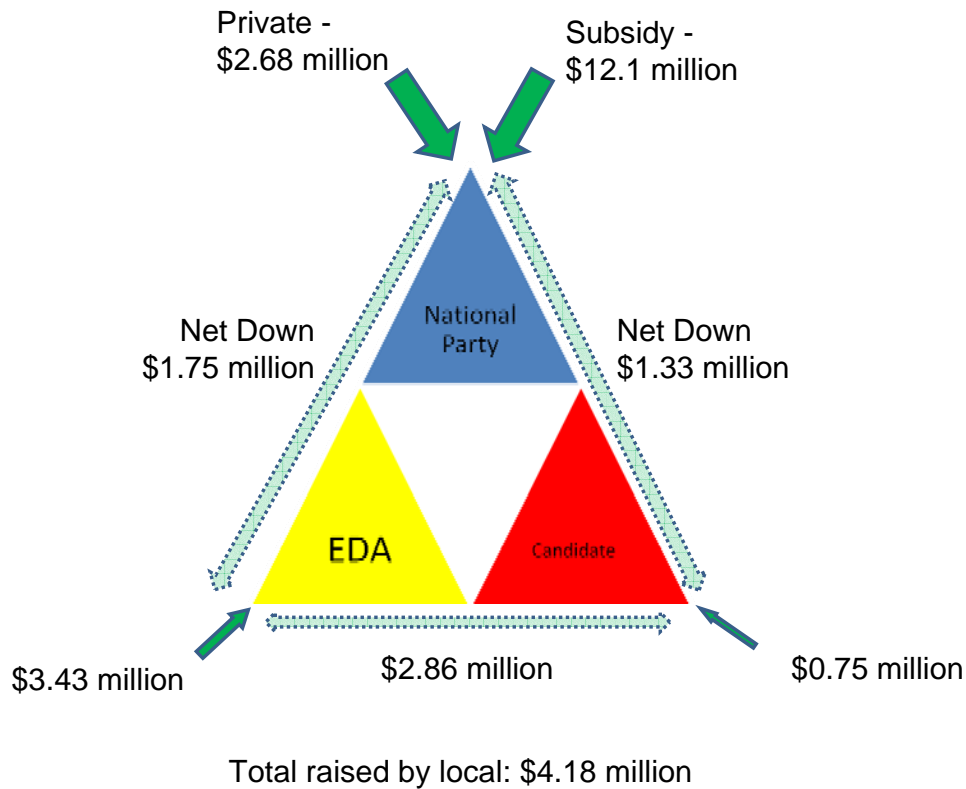
Bloc Québécois Party, 2004-2007

Finally, Figure 8 displays the financial patterns of the separatist Bloc Québécois.² Unlike any of its national competitors, the BQ's model of party financing most resembles the centralized or state-dependent fundraising models. First, the national party raises very little from contributors (\$2.7 million) compared with either its local units (\$4.2million) or from party allowances (\$12.1 million).

The central party is not alone in its dependence on state subsidies. The BQ's central party transferred \$3.1 million down to its local units, which is equal to 74% of the total money raised by those units. In other words, the local units of the BQ receive approximately three quarters as much money from the central party then it does from its own fundraising activities. And since the central party was almost entirely dependent on the state for its income, BQ local party organizations and candidates were also dependent on state money, albeit indirectly.

² The BQ only runs candidates in the province of Quebec. As such, it only needs to support 75 local parties and candidates.

Figure 8: Bloc Québécois Aggregate Fundraising and Internal Money Flow, 2004-2007



Therefore, findings suggest that 2004 to 2007 the national-local balance in Canadian party financing was varied. During this period, the Liberal and Conservative parties' patterns of internal transfers and inflows matched the strataarchical model while the NDP placed somewhere in between the centralized and strataarchical fundraising model. The BQ was the outlier. Its party finance model closely resembled the state-dependent centralized model. Both its central and local party organizations relied heavily on state subsidies.

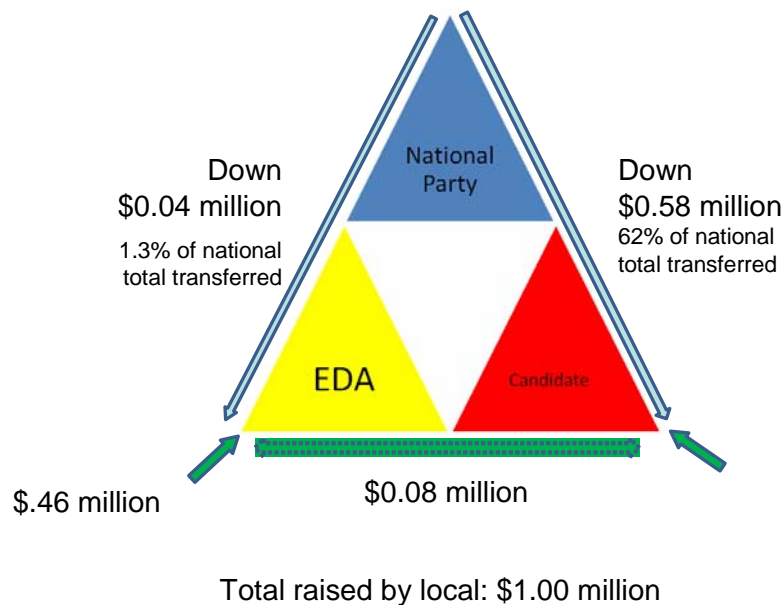
But is the national-local balance and patterns of party financing consistent in all regions of the country? More specifically, we expect patterns of party financing to vary depending on a party's strength on the ground. We test these expectations by comparing Conservative and Liberal party internal transfers and inflows in Quebec over time.

Financing Party Politics in Quebec

Figures 9 and 10 illustrate local Conservative Party inflows and the transfers down from the national to local units of the party in Quebec over two year intervals.³ The figures point to four interesting findings. First, from 2004/2005 to 2006/2007, the Conservatives party's finances in Quebec improved dramatically. In the first two years after the merger between the Canadian Alliance and Progressive Conservative Party, Conservative candidates and electoral district associations raised only one million dollars and the national party transferred only \$620 thousand dollars to help support its local components. This clearly underscores the early weakness of the Conservative Party in Quebec.

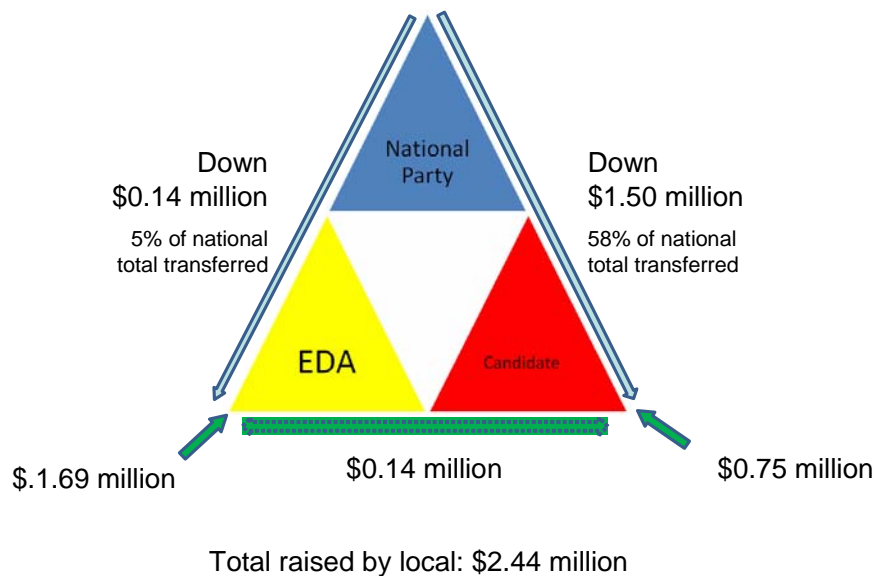
But over the next two years, the party's financial fortunes improved considerably in Quebec. Not only did its EDAs and candidates raise more than double the money (from \$1 million to \$2.4 million) it raised in the previous two years, but the national party transferred 164% more money down to support its candidates and EDAs. Expressed another way, in 2004/2005, the national Conservative Party transferred on average \$8,000 per EDA in Quebec. In 2006/2007, that figure jumped to \$22,000 per EDA. This change certainly helped the Conservatives to elect ten MPs in Quebec and form a minority government.

Figure 9: Conservative Party Fundraising and Internal Money Flow, Quebec, 2004-2005



³ Data are not available for national party revenues in Quebec or for transfers from local units up to the national party.

Figure 10: Conservative Party Fundraising and Internal Money Flow, Quebec, 2006-2007



Second, data reveal the centralized nature of Conservative Party financing in Quebec. While average central transfers equalled 29% of funds raised by EDAs and candidate across the country, in Quebec central party transfers were closer to 64% of the money raised by its Quebec EDAs and candidates. As such, Conservative party financing in Quebec looked more like the BQ or centralized fundraising model than the national Conservative party or stratarchical model. This regional difference is clearer when we look at Liberal party financing in Quebec.

Finally, data indicate that the Conservative Party transfers to its Quebec candidates represented around 60% of all funds transferred to candidates nationally in the 2004/2005 and 2006/2007 periods. This confirms other data which suggest that the Conservative Party transferred the majority of central funds into its Quebec candidates' campaigns. Furthermore, the fact that the party transferred substantially more money to candidates than to its EDAs implies that its local party organization was weak and money was more effectively spent directly by their candidates. Comparison with the Liberal Party, whose local party organization is more developed in Quebec, further confirms our suspicion.

As Figures 11 and 12 indicate, unlike the Conservative Party, Liberal Party finances in Quebec did not improve over time. The Sponsorship Scandal, and the ensuing Gomery Inquiry into it, severely hurt Liberal Party finances in Quebec. From 2004/2005 to 2006/2007, its candidates and EDAs raised substantially less money and the lower party transfers indicates that the party was less competitive in Quebec constituency elections.

However, apart from the changing Liberal Party fortunes in Quebec, the data do show a clear difference in the party financing patterns between the Liberals, Conservatives and BQ. Unlike the Conservative

Party and BQ, the Liberal Party transferred significantly less money from the national party to its local components. In all, Liberal candidates or EDAs could not or did not need to rely on the national party for financial support. The total amount transferred from the Liberal Party to its local components equalled approximately 24% of funds raised by the local units, 44 percentage points less than the Conservative Party and 54 percentage points less than the BQ. Clearly, the Liberal Party’s stratarchical financing pattern in Quebec matched its financing pattern across Canada. However, its organization deviated significantly from its main competitors in Quebec (the Conservatives and BQ) whose internal financial flows mimic that of a centralized or state-dependent centralized model.

Figure 11: Liberal Party Fundraising and Internal Money Flow, Quebec, 2004-2005

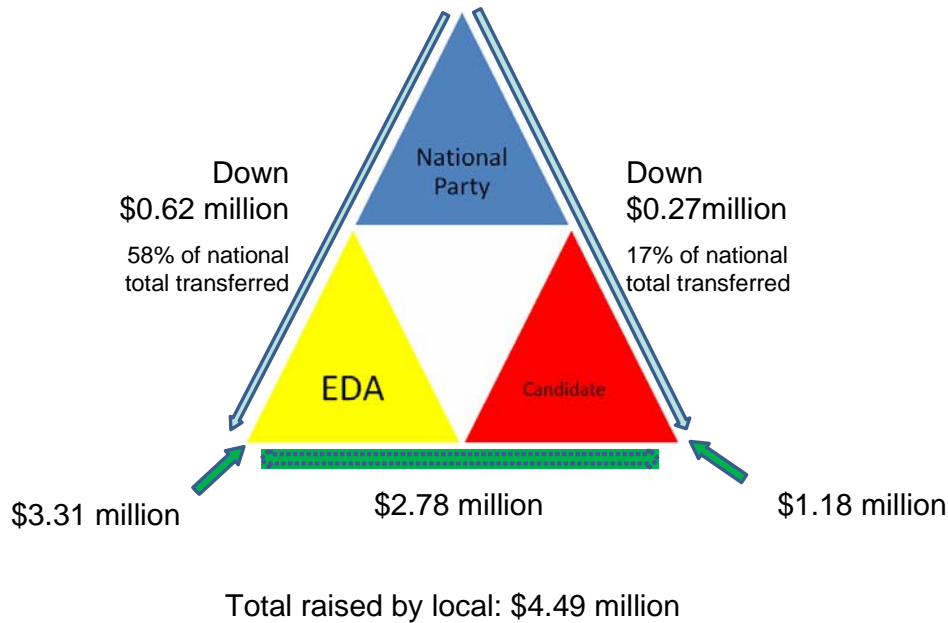
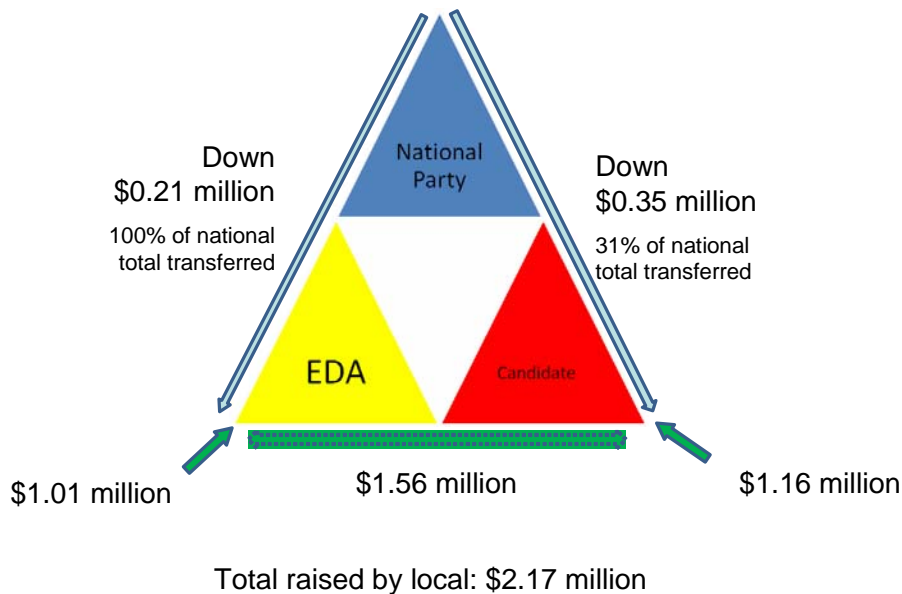


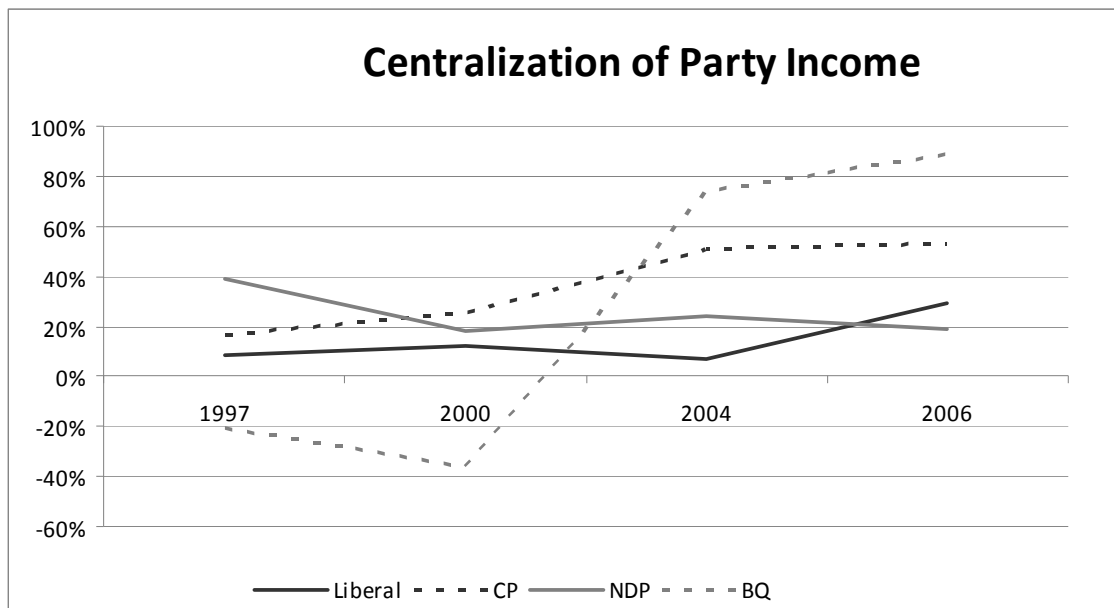
Figure 12: Liberal Party Fundraising and Internal Money Flow, Quebec, 2006-2007



Changes in National-Local Balance over Time

Data plotted over the 1997, 2000, 2004, and 2006 (Figure 13) election cycles indicate some changes in the degree of centralization in party income in Canada⁴. Most notably, the introduction of direct state subsidies in 2004 altered the national-local balance in BQ income flows the most. During the 1997 and 2000 elections, the BQ's party income centralization score was around -20% meaning that the local components raised more money than the national party. However, following the implementation of Bill C-24, BQ party finances become substantially centralized with the party income centralization score reaching +89% in 2006. Even if we include EDA income in 2005⁵, the party income centralization score remains high at +69%.

Figure 13: Centralization of Party Income, 1997-2007 (National Party Revenue minus Local Party Revenue)



Although the BQ saw the greatest change in its national-local balance, there was also some change among Canada's other main parties. In particular, there was an increase in party income centralization in the Conservative Party and to a lesser extent in the Liberal Party. In 1997 and 2000, the combined Canadian Alliance and Progressive Conservative Party income centralization score was +17% and +26% respectively. In both cases, the national parties raised more money than their local components. However, after 2004, the newly-merged Conservative Party of Canada's scores increased to around

⁴ The party income centralization measure was calculated by subtracting the percentage of party income derived from national sources (contributions and direct state subsidies) from party income derived from candidate fundraising. EDAs were not required to report their financial transactions prior to 2004. For example, for the Liberal Party in 1997, 54% of income was collected by the national party and 46% was collected by candidates. The party income centralization score equaled +8%.

⁵ The BQ had a large number of incumbent MPs who could have raised considerable amounts of money through their EDAs in 2005 (the 2006 election was in January 2006).

+50% indicating that the national party received more income than its local components. With the new direct state subsidy and the party's impressive direct mail fundraising system, the national party raised considerably more money than its local components.

The Liberal Party's national-local income balance was relatively stable from 1997 to 2004 going no higher than +12% in 2000. However, in 2006, most likely the result of fallout from the sponsorship scandal, its candidates raised considerably less money than the national party increasing centralization in party revenues.

During the 1997 to 2007 period, the NDP's income patterns moved in the opposite direction as its main competitors. Instead of centralizing its party finances at the national level, data indicate that the party's national-local income balance remained relatively stable from 2000 to 2007. Although the party decentralized somewhat from 1997 to 2000, the introduction of direct public subsidies has replaced the party's reliance on trade union contributions which were outlawed in 2004. In all three elections since 2000, the national party's revenue has consistently been greater than its local components, but the relative balance between the two has not changed significantly.

Along with the introduction of direct state subsidies in lieu of the new restrictions on contributions to political parties, a decrease in candidate fundraising may help to explain the general pattern of party centralization. Figures 14 and 15 plot total candidate and party fundraising during the last four Canadian general elections.⁶ In 2004, total candidate and party fundraising declines significantly for all four parties. During the 2004 federal election candidates were bound by new contribution limits outlined in Bill C-24. Although corporations and trade unions were still able to contribute to candidates, for the first time, individuals and other contributors could give a maximum of \$5,200 to one candidate. Moreover, national parties could only receive contributions from individuals. Therefore, it is clear that the direct public subsidies were critical in maintaining an adequate funding base, particularly for the Liberal and Conservative parties. With declining candidate and national party fundraising revenues being replaced by direct public subsidies given to the national party only, the national-local balance shifted towards to the national parties. In this way, the introduction of direct state subsidies along with new contribution limits on candidate and EDA fundraising centralized party finances, although as the previous section highlighted, in varying degrees.

⁶ This excludes reimbursements, direct public subsidies, and other forms of party income. Net fundraising fundraising costs subtracted from contributions from individuals, and prior to 2004, businesses, associations, and trade unions.

Figure 14: Total Candidate Fundraising, 1997-2006

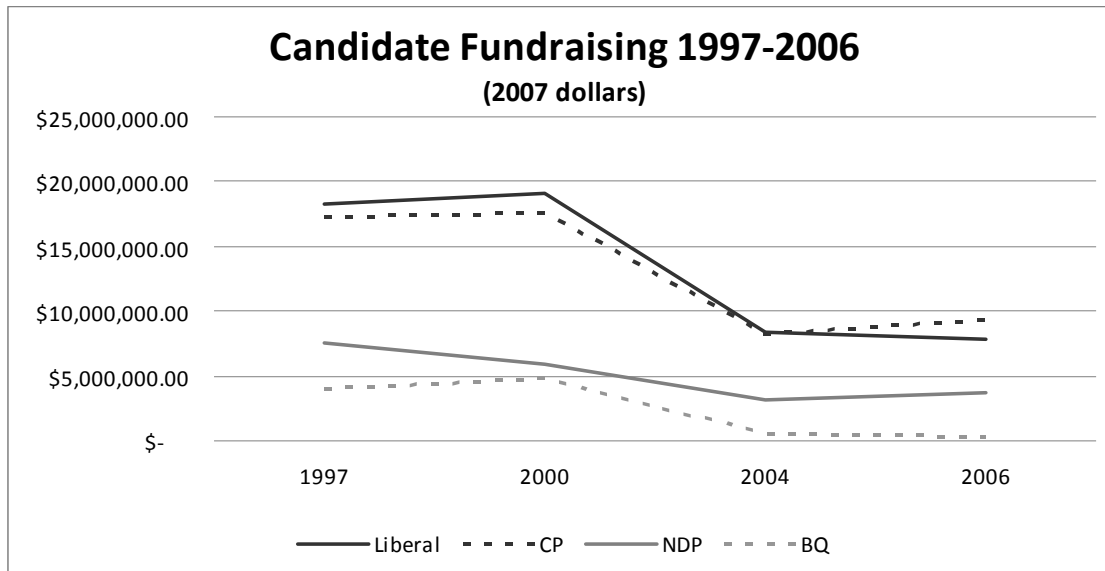
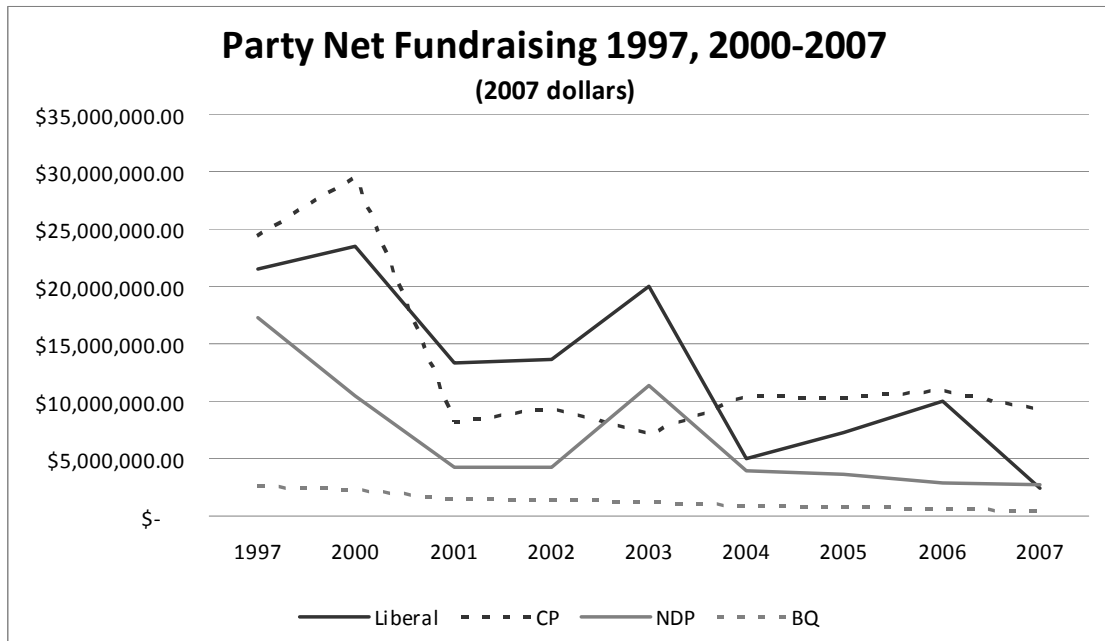


Figure 15: Total Net Party Fundraising, 1997, 2000-2006



Conclusion

This analysis of internal financial flows within Canadian political parties provides partial support for Carty’s claim that Canadian parties are stratarchically organized. The two largest parties – the Conservatives and Liberals – raise enough money at both the local and the national level to contest elections at that level and to maintain their organization. Neither level is consistently financially reliant

on the other. That said, an examination of financial flows within Quebec suggests that the Conservative party is in fact centralized in its Quebec organization, with the local entities financially reliant on the national party for support.

In the two smaller parties – the NDP and the BQ – financial stratarchy is less evident. The Bloc, in particular, fits the model of state-dependent centralization, with the national wing of the party funnelling state funds down to the local units. In this respect, the Bloc is the closest Canadian approximation to Katz and Mair's (1995) cartel party.

For all the parties, however, there has been a discernible centralization of fundraising activity since 2004. The national wing of each party enjoys not only the per-vote state subsidy, but also a natural advantage over its local entities in fundraising. To solicit a large number of relatively small contributions from individuals in contemporary Canada requires the use of practices and technologies such as direct mail, telephone solicitation and Internet fundraising. These techniques succeed when the content of appeals is carefully crafted and personalized; the fixed costs of establishing the infrastructure and appeal are high, so they are feasible only as large scale undertakings. Local associations run by volunteers trying to reach supporters in a geographically circumscribed area face significant barriers to using these kinds of techniques. To the extent that the new election finance regime has placed a premium on fundraising from individuals and has benefited the national party relative to the local party, it has potentially contributed to a centralization of the internal organization of Canadian parties and a gradual erosion of stratarchical relationships between the national and local faces of the parties.

Works Cited:

Carty, R. Kenneth. 2002. "The Politics of Tecumseh Corners: Canadian Political Parties as Franchise Organizations." *Canadian Journal of Political Science* 35 723-746.

Carty, R. Kenneth, and William Cross. 2006. "Can Stratarchically Organized Parties be Democratic? The Canadian Case." *Journal of Elections, Public Opinion and Parties* 16, no. 2: 93-114.

Carty, R.K. 2004. "Parties as Franchise Systems: The Stratarchical Organizational Imperative." *Party Politics* 10, 1: 5-24.

Carty, R.K., and Munroe Eagles. 2005. *Politics is Local: National Politics at the Grassroots*. Don Mills ON: Oxford University Press.

Courtney, John. 1970. "Recognition of Canadian Political Parties in Parliament and in Law." *Canadian Journal of Political Science* 11, no. 1: 33-60.

Elections Canada. 2008. "Contributions and Expenses at the Federal Election or By-election: Candidates and Registered Parties "Retrieved 29 April 2008, from <http://www.elections.ca>.

Katz, R. and P. Mair. 1995. "Changing Models of Party Organization and Party Democracy: The Emergence of the Cartel Party." *Party Politics* 1(1): 5-28.

Young, Lisa, Anthony Sayers and Harold Jansen. 2007. "Altering the Political Landscape: State Funding and Party Finance" in *Canadian Parties in Transition* 3rd ed. Alain-G. Gagnon and Brian Tanguay (eds) Peterborough: Broadview Press.

Young, L. 2004. "Regulating Campaign Finance in Canada: Strengths and Weaknesses." *Election Law Journal* 3(3): 444-462.