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When Politics Corrupts Money

John LaPlante

The October 20 edition of the Capitol Report carried an article with this subhead: “Local and national corporations gave millions to big GOP party in St. Paul to curry favor.”

The article quoted Steve Weissman of the Washington, D.C.-based Campaign Finance Institute. Weissman said “companies and others that were seeking federal influence purely, or didn’t have any interest in promoting Minnesota particularly, accounted for most of the money.”

You don’t say.

Take a look at some of the companies that are mentioned in the article by staff writer Betsy Sundquist: Pharmaceutical companies combined to give \$2.1 million. Two oil companies chipped in \$450,000. AT&T donated \$1.4 million.

Do you notice a trend? Pharmaceutical companies are in business only because the Federal Drug Administration lets them sell their products. Oil companies depend on Congress to tell them where they can and cannot drill. The business of AT&T, meanwhile, is shaped by various rules laid down by the Federal Communications Commission.

So you might call the donations to the GOP convention, as well as those to the Democratic National Committee convention in Denver, attempts to curry favor. Or you might call them protection money. In short, the problem isn’t that money corrupts politics. Rather, politics corrupts (the making of) money.

In January 1999, an article in the Wall Street Journal announced a significant transformation in American business and politics: “Microsoft Moves Into Big Leagues of Political Funding.”

According to the story by Journal writer John R. Wilke, Microsoft had recently tripled its political contributions. And in the first half of 1998, its lobbying expenses doubled over the same time period the year before.

Since the start of 1999, according to the website Campaign Money (www.campaignmoney.com), Microsoft and its employees have made \$9.4 million in contributions to various candidates and political committees. From 2000 through the latest records for 2008, its political action committee had disbursed more than \$7 million.

What accounts for the increased attention to the political world? Did Bill Gates develop a civic awareness that he had previously lacked? That's possible. But there's a more likely explanation for the company's entry into the political arena: It was provoked by the political class.

Recall that the 1990s were, in addition to being the era of the dot-com bubble, the era of an anti-trust crusade against the company. No wonder why, in 1999, Jennifer Schecter of the Washington, D.C.-based Center for Responsive Politics said of Microsoft, "They're clearly building an arsenal and preparing for war." Mark Murray, a Microsoft spokesman, confirmed this conclusion, saying that the company's employees "recognize that technology industries are increasingly affected by public policy."

Is this a self-interested statement from a man whose employer was hounded—rightly, wrongly, or otherwise—by government officials? Perhaps. But it's obviously true nonetheless.

A more recent article from the Wall Street Journal provides another illustration of how government provokes political donations. An article from Oct. 24 carried this headline: "Drug Industry Adapts to Democrats' Mounting Clout."

According to the report, the Pharmaceutical Research and Manufacturers of America (PhRMA), the industry trade group, recently spent \$13.2 million to boost the political fortunes of 25 Democrats and 3 Republicans. The money, which was laundered through the group America's Agenda, was used to applaud members of Congress who approved an expansion of SCHIP, an add-on of the Medicaid program. PhRMA has also spent money to push for universal health care legislation across the country.

Does the group have a business interest in seeing SCHIP expand? Since it's likely that increased government spending could lead to more drug purchases, yes. Yet there's also an element of trying to keep regulators at bay.

The Journal also notes that "after years of donating overwhelming to Republicans, the pharmaceutical industry is now splitting campaign contributions between the political parties."

Why would that happen? One pro-SCHIP activist said that he first met with PhRMA officials just before the 2006 elections. At that point it was clear that Republicans were going to lose Congress—and the push to expand SCHIP would gain steam. Today, industry officials know that the Republicans are going to get clobbered in next week's general election.

It's logical for PhRMA to do what it can to get on the good side of the party that has consistently favored price controls on its products, at least indirectly. Many Democrats (and some Republicans) have long favored measures such as removing the ban on importing prescription drugs from other countries (which practice price controls) and giving the 800-pound gorilla of Medicare the power to "negotiate" the prices it pays for prescription drugs.

It's understandable that the self-interest of information technology and pharmaceutical companies drives them to pay homage to the political class. It's also unfortunate. Money spent on politics—whether as a defensive measure or, a whole other topic, in the attempt to get government to squeeze out one's competition—could have been spent on developing new products or improving old ones. Instead, it goes to lobbyists and campaign funds.

In a world of large government, such expenditures are inevitable. So is politics corrupting money.