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What Is the Place of Corporate Money in Democratic Politics?

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Most Americans express deep reservations about corporate campaign contributions, expenditures, lobbying, and other ways that for-profit entities are involved in elections and legislation. There are two distinct perspectives on this matter. First, and in widest currency, money is viewed as corrupt or corrupting of the political process. The Populist or Progressive reformer views business involvement with government as bad because it interferes with democratic politics and diverts legislation from what the majority of people want. Second, as Fred Smith's essay keenly points out, the Public Choice economist views business involvement with government as bad because of the deadweight loss to society of government activity. All businesses seek a competitive advantage, and governments respond to the lobbying and contributions of businesses by passing anti-competitive legislation, such as protective tariffs or regulations, that favor some firms or sectors over others. The more one business or another asks of government, the more distortion the government's actions will create in the economy.

Yet it is naïve to think that modern democratic politics can be conducted without money in elections or lobbying by firms. Modern elections do not seem possible without the expenses of advertising, organizing, and direct campaigning. Indeed, without the expenditure of money to inform voters about their choices, many voters would not be able to make a decision consistent with their views. Modern legislative politics also does not seem possible if Congress and state legislatures do not engage with businesses. Legislatures must somehow become informed about the effects of any action or inaction on competing interests in society.

Smith's essay reflects on the deeply normative nature of the century-old debate about money in politics—namely, the moralizing about whether business does bad or good and what it may mean for the pursuit of libertarian ideas. My own vantage on this matter is quite different. I view the flow of money and the activity of

corporations in politics as an opportunity to understand the elusive phenomenon of political power. Empirical political science does not begin with the belief that money is power. Rather, it begins with a question: under what conditions would money translate into power or influence? If money is power, what can we learn about the nature of political power by studying the flow of money? In this regard, campaign contributions, lobbying, and the like become useful a measuring stick of political influence and power.

I have always found Gordon Tullock's insights about rent-seeking behavior to be quite enlightening about when and how money might translate into power. Tullock's approach is useful precisely because the micro-economic models of firms and firm behavior fit the campaign contribution problem extremely well. What I find shockingly new about his take on campaign contributions (even 40 years later) is that he turned the problem around and made it into a problem that a business or an investor faced, rather than a voter or a candidate.

Tullock's perspective opens up a wholly different way to understand politics. I and my colleague Jim Snyder distinguish two types of contributors in U. S. elections: Investors, those who expect something in return, and Consumers, those who give for the intrinsic value of participating in politics. Corporations, because they are for-profit institutions, have some expectation of return on their investment. Companies use resources from their own treasuries and the time of their personnel to support their Political Action Committees (PACs), and they sometimes spend or contribute money directly, as was the case with soft money in the 1990s and Super PAC money today. The same may be said or corporate lobbying expenditures. These funds come directly from the corporate treasury and they are subject to the same scrutiny by the company CFO, board, or other entity, as purchases of equipment or hiring and firing decisions. Is it worth it to spend $1 million to maintain an office in Washington DC, or $250,000 to staff a Political Action Committee (let alone raise and contribute money)? The answer for about 3,000 companies in the United States is yes. But few spend exorbitant sums. The largest corporate contributors in 2012 were Honeywell International at $3.2 million in contributions to presidential, congressional, and party committees, followed by AT&T at $2.5 million, Northrop Grumman at $2.4 million, and Lockheed Martin at $2.3 million.

Individual contributors, by comparison, are not readily classified as Investors or Consumers. Most appear to behave as Consumers, giving to their preferred party, to ideological kindred spirits, or candidates with whom they have a personal connection. Some may also behave as Investors, giving with either some immediate personal return, such as appointment to office, or return to their company.

Most money in U.S. elections does not come from business. Campaign contributions come from businessmen and women, but not from business per se. Even after

Wisconsin Right to Life and *Citizens United* reputedly removed a substantial barrier to direct corporate involvement in politics, individual donors still dominated campaign finance.

Corporate campaign contributions, however, are particularly interesting as a measure of political power. What does money as a metric of power reveal?

- The president and Congress are about equally powerful.
- Within Congress, the House and Senate are about equally powerful. Their corporate PAC contributions in the aggregate are about the same.
- For a firm with an interest in a specific committee's jurisdiction, a congressional committee member is about 3 times more valuable as a typical member.
- Ways and Means and Energy and Commerce Committees in the House are powerful in all aspects of the economy.

These and other patterns are quite regular in the record of U.S. campaign finance, and their regularity underscores the insight that can be gained from viewing corporate presence in politics from a positive, rather than a normative, perspective.

It is natural to ask, then, what corporate political money is worth. What do businesses get in return? Here Public Choice Economics is less useful. The game theoretic models that have been spun out over the years yield results that run the gamut. Under some conditions it is possible to give a tiny amount and receive an enormous rate of return; under other sets of assumptions it is possible for politicians to do nothing and receive enormous amounts of money. Gene Grossman and Elhanan Helpman's *Special Interest Politics* analyzes a full range of such models.

There are two extreme cases, each of which implies abnormal rates of return on investment. At one extreme is a case in which there is one firm and many politicians compete for that firm's support. In this situation, the firm can extract an exceedingly high rate of return for very small contribution, or can substantially alter legislative outcomes with only minimal lobbying expense. If politics were a sector of the economy in which any corporation or investor could garner high rates of return with little investment, then every large company would be in the game. Not all Fortune 500 companies are, let alone all companies in general. At the other extreme is the case in which there are many firms and one politician whose support all firms require. In this situation, the politician can extort large amounts from companies with little more than a threat. If this were the situation in the United States today (as is the case in many countries), then each firm would be forced to give much more than they do, every firm would have to pay to play, and the return in terms of public policy would be minimal.

The discourse on the role of business in American electoral politics alternates between these two poles. Neither seems reasonable to me, or to most businessmen and women whom I talk to. A more sensible model strikes the balance between

these extreme and abnormal cases. There are at once many donors and many recipients, and in a world in which there is healthy competition on both the supply side and the demand side, we expect behaviors more akin to a competitive market than to monopolistic or monopsonistic competition. Like any kind of capital or labor investment that firms may make, politics has a normal rate of return determined by the negotiations among many thousands of people. There is some heterogeneity of quality (power) in the market, but on the whole it is quite competitive. Politics, then, resembles any other productive activity one may invest in; the amount invested will reflect the return one can get.

American businesses give only small amounts of money to politics compared with other productive activities, and the return on their investment, according to the vast empirical literature, is modest, at best.[1] That observation deflects some of the normative criticism hurled in the direction of money in American politics. But it does not detract from the positive value of using corporate campaign contributions and lobbying activities to understand the nature of power in the U.S. political system.

Note

[1] For a literature review see Stephen Ansolabehere, Jon deFiguereido, and James M. Snyder, Jr., "Why Is There So Little Money In U. S. Politics?" *Journal of Economic Perspectives* 2003.

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