The secrets of the political economy.

Corporations on the Government Gravy Train

by AMITAI ETZIONI

THERE IS A rather reliable, relatively easy way to improve your bottom line which most MBAs fail to mention and your economic consultants are unlikely to recommend: Call on the government. Say you are manufacturing motorcycles and Japanese imports are eroding your market. Instead of designing, market testing, and promoting a better, less costly product—a long, costly, and risky process—get the government to slap a high tariff on imports and bingo, your profits will improve.

This is what Harley-Davidson did in 1983. Between 1978 and 1983, Harley-Davidson lost more than a third of the market (engines of more than 700 cc) to Suzuki, Yamaha, Honda, and Kawasaki. However, in 1983, Harley-Davidson gained an increase in American tariffs on imported motorcycles from 4.4 to 49.4 percent! (The Japanese are allowed to ship the first 6,000 motorcycles a year under the old 4.4 percent tariff, and this number increases by 1,000 bikes a year after 1983.) Their market share rose to 16 percent in 1986, compared to 12.5 percent in 1983; by 1985 the company recorded a net profit of $2.6 million.

Each year thousands of American corporations get the government to improve their business by limiting imports and in numerous other ways to be discussed; at the same time, many other corporations would rather drop dead than make headway that way. How does the political economy work? Should you indulge? And what is to be done if one recognizes that such government involvement may be beneficial to this or that corporation but is bad news all around, for the economy, for democracy, for the country?

Business people are inclined to discuss the undesired intrusions of the government in the marketplace. When two business persons meet on a flight, at the country club, or at a trade fair, a quick reference to yet another inane action the government has undertaken is a highly acceptable way to strike up a conversation; indeed, it makes for a better come-on than the weather, and unlike football and basketball, it is never out of season. These conversations typically imply that the government advances absurdly because of bureaucratic follies (red tape), political ineptitude (rampant), or ideological blinders (liberalism). It is not mentioned in polite company that a considerable share of these government intrusions are generated by, for, and at the insistent requests of one corporation or another, often whole trades or industries. In effect, many business executives have

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discovered that a highly effective way to reduce costs, increase revenue, or enhance profits directly, without first reducing cost or increasing revenues, is not via the marketplace but via the political process.

- **Reducing costs.** One way to keep the costs of your insurance down is to get Congress to pass a bill to prevent people from suing you. This was achieved by those who produce nuclear materials, deal with its waste, and so on in September 1984. The bill, in effect, wiped out numerous pending suits claiming billions of dollars of damage due to radiation.

- **Building up revenues.** Limiting imports, we already saw, may help motorcycle producers to maintain or regain market shares. “Voluntary” limitations on the importation of autos, imposed on Japan by the threat of introducing mandatory limitations, are another case in point. Steel gained protection while copper was denied. Artificial fibers gained an edge over natural ones in the multifiber agreement signed by the United States. Such limitations are often treated as exceptions or aberrations but are in effect very common.

The ability to draw on the government to limit foreign competition may leave you with domestic competitors. Those can be handled by drawing on state and local governments. For example, what do you do if you run a trucking company which delivers parcels in Texas and you do not want to compete with United Parcel Service. You get the legislature to extend the Texas Motor Carrier Act of 1931, which allows United Parcel to pick up or deliver parcels in Texas, but not both.

In 1981, Congress passed a law allowing soft-drink companies such as Coca-Cola and Pepsi to set up exclusive distribution franchises. This makes it rather difficult for new brands to break into many areas. Even beer distributors do not like these arrangements, although rather than fight for freer markets they are demanding a right to set up similar limitations on free trade for their wares. The big car-rental corporations, such as Hertz and Avis, got from the local authorities the best “slots” in airports to sell their service. They reluctantly yielded some slots to National, but in many airports those who wish to rent cars from most other competitors must still find them outside the airports.

- **Fatter profits.** In the marketplace, it is difficult to increase one's profits without cutting costs or enhancing revenues, although a merger may do. In politics it is quite easy and common. One gets a corporation-tailored tax exemption, deferral, or write-off and your
after-tax income, your profits, is substantially higher. For instance, when the 1982 tax law was being drafted, a General Electric representative argued for repeal for new leasing provisions “after first taking maximum advantage” of them. GE acknowledged “that this would likely increase profits for its important equipment leasing subsidiary—while hurting many of the other firms.”

When the leasing rules were tightened in the summer of 1982, Sen. Slade Gorton (R-Wash.), from the state in which Boeing makes its home, sponsored a special six-month extension period for the old (looser) leasing regulations for some aircraft. The change would have substantially benefited Boeing, which was about to sell a batch of planes to Eastern Airlines, although it would have provided little or no benefit to other airplane manufacturers. It would also have hurt Continental (which argued that there were too many empty seats as it is) and was opposed by American, which competes directly with Eastern in several markets. A provision specially tailored for AT&T, allowing a retroactive reclassification of telecommunications equipment, was valued at $8.1 billion.

**COMEDY OF ERRORS**

Occasionally the scramble to serve special interests leads to unintended results more suitable to a comedy of errors than to the nation’s top legislative body. In the summer of 1982, Sen. Thad Cochran (R-Miss.) introduced an amendment to the tax bill that would have kept open a loophole for the Masonite Corporation. The wording of the amendment inadvertently canceled a similar benefit for the Gulf Oil Corporation. In turn, Gulf Oil canceled a multi-billion-dollar transaction (takeover of Cities Service Corporation), which was deemed unprofitable without the special break.

Another way to beef up profits is to affect government reimbursement schemes to accounting procedures. Recently, there has been significant growth in private corporations that own and run hospitals for profit. (It used to be almost completely a voluntary or public service.) In 1983, the industry insured the extension of a provision that guarantees a fixed return on equity by affecting Medicare calculations. This return on equity averaged 19 percent for 1982; it was above 15 percent in mid-1980 and almost 23 percent in late 1981. Few free market industries have it so good.

The Tax Reform Act of 1986 contains numerous provisions which under so-called transitional rules provide numerous tax breaks by delaying the date or changing the conditions under which tax reform will be applied to them. The total value of these special provisions is not trivial: some $5.6 billion for about 100 corporations. One example will have to stand for the many. Investment tax credits will cease by 1989. Only assets firmly ordered before 1989 will qualify for credit. For the production of movies this is defined as exhibition in at least one theater by December 31, 1988. However, Walt Disney Productions will be able to obtain the tax credit as long as the money was raised last year, regardless of when the movie is produced.

**WAYS AND MEANS**

How do you get the government manna to rain on your corporation? Obviously it does not shower on its own accord to those firms most in need. A political economist may provide you with a catalog of the ways and means used to get the government on your side—if only so you can get what your competitors are already soaking up. The means range from those that are strictly legal and ethical (such as the right to petition Congress) to questionable ways that come in varying shades of gray (e.g., campaign contributions) to out and out non-no's but far from unknown means (bribes, to be specific).

- **Up and up.** The lobbyists in the corridors of Congress are often lined up five to six deep, unless a major tax or budget legislation is being worked out; then the crowds are much larger. Prominent among them are numerous so-called corporate representatives. Less visible, more discrete, over dinner or lunch, or in the privacy of their offices, there are frequent visits by corporate VPs and CEOs from out of town. All these corporate people exercise their constitutional right to petition Congress. Their petition may be in favor of some general philosophical position (lower deficits), a specific trade (tobacco farming), or their individual corporation. As long as all that is presented is evidence (say, about unfair competition from Polish coal mines), arguments, and recommended corrections, such lobbying is part and parcel of the American democratic form of government, fully protected by the Constitution.

True, quite a few corporations so disdain politics, finding wheeling and dealing with politicians and bureaucrats so unsavory, that they are neither seen nor heard from in Washington, wishing nothing but to be left alone. Also, many businesses cannot afford Washington representatives and realize that they cannot effectively compete with giants and larger corporations in this realm anymore than in most others. But the number of lobbyists keeps growing and those who cannot afford a full-time “representative” find they can time-share one.

Another important reason many corporations avoid the government is that lobbying is rarely that clean. It often ranges into various shades of gray, of less legal
and ethical acts that entail the flow of money from corporations to politicians.

- Shades of gray. The problem is, first, one of access. Precisely because everyone has the right to petition Congress, members of Congress cannot grant a hearing to all comers. Most members of Congress are extremely busy. They dash about from one committee meeting to another, frequently called away to cast a vote, must attend to their real constituents through frequent visits to their home turf, and so on. The few hours a day (for some, per week) set aside for “access” are typically in high demand. To ensure a slice of it, especially one uninterrupted by phone calls and roll calls, say, a lunch or dinner away from the Hill, to gain an opportunity for a careful presentation takes some doing.

True, a head of a major corporation may obtain such real access just because of his/her status (or the size of plant in the appropriate congressional district). But the average corporate representative must resort to some special devices to gain access. Enter the gray means. They range from the slightly dubious to the quite questionable.

Corporations invite members of Congress to corporate retreats at fancy resorts, all expenses paid for them and for their families. And corporations invite congressmen to lecture for $2,000, even if it lasts ten minutes and, as Sen. William Proxmire (D-Wis.) put it, they read aloud from the phone book. Thus, AVCO, with keen interest in the MX missile, paid MX advocate Rep. Bill Chappell (D-Fla.) $4,000 for “lectures” in one day. Once wined and dined, golfed and lionized, and paid, access is relatively easy and relaxed. An ingenious trade group took Tip O’Neill, Dan Rostenkowski, and, by some fluke, me on a cocktail boat off the Florida coast. The boat had no phone and the august congressional leaders had no choice but to drink and listen for two hours to their host-lobbyist before they were let go again.

But alas, access—even good access—is not enough, the corporate inchoate will soon discover. What is to prevent a politician from listening to a corporate representative politely and attentively, nodding his head reassuringly, and doing nothing? Actually, elusive talk is an art politicians have perfected. Martin Tolchin, who covered Congress for many years for The New York Times, catalogued a special language politicians created in order to seem supportive when they actually are not. “Will look immediately into the matter,” “you have my fullest support subject to Committee vagaries,” and even “I’ll do my very best” mean thanks for the fee, the wine was fine, it was nice to visit, but often no more.

What is often added, to ensure results, is a significant pile of hard cash, typically in the form of a campaign contribution. Before you jump and say, wait a moment, this is no gray matter but an out and out bribe, the black, hard-core criminal stuff, listen to what your corporate competitors (and numerous noncorporate interests, from labor unions to consumer groups) are doing. It is legal for executives to make individual campaign contributions up to $1,000 per candidate. Those contributions are then put into a corporate envelope and delivered. While such “bundling” (of individual contributions) is not quite legal, it is fairly widely practiced.

"Why climb through the back window when the front door is open?"

Boeing Company set up a “civic pledge program,” according to which executives of the corporation, who volunteered to support a given candidate, could write checks directly payable to the candidate. All Boeing had to do was to collect the checks and turn them over as a bundle to the candidate. However, an examination of the list of donors reveals an oddity; look, for instance, at the list of donors to the Committee to Re-elect Bill Fuller: S.M. Lindgren; K.J. Luplow; Donald L. Martin; Henry S. McMurray; Roy H. Okada; Robert E. Perdue; Bertan J. Roundy; Herman Schaeffer.

The list is clearly a segment of the alphabet. It is extremely unlikely that executives whose names begin with L to S favor Fuller, while those with A to L or S to Z favor other candidates.

Sometimes, in a kind of backhanded recognition of the law, they are significantly camouflaged. Rep. Martin Russo (D-Ill.) was the author of a clause in the 1981 tax bill that would have saved commodity traders $400 million per year. He received thousands of dollars from various individual commodity sources in the first six months after his reelection in 1980, during consideration of the tax bill and the commodity traders’ loophole. Nineteen women who listed their only occupation as homemaker each gave $500 on the same day, June 3, 1981; all but one had the same last names as those of commodity traders.

PAC RATS

Much more common is for a corporation to set up a PAC (political action committee) and pay for its startup, administrative, and communication costs out of its coffers and then, openly and legally, collect individual contributions from its employees. (When some middle-ranking executives at Dart Industries did not cough up enough campaign contributions to the Dart PAC, Mr. Dart himself gave them a “sell” talk.) Next, the corporate
brass, serving on the committee that manages the PAC, designates which politicians are the beneficiaries. Studies show that in many corporations the contributors have no say over or even awareness of who gets their contributions. Among the largest corporate PACs are those set up by defense contractors, such as United Technologies, Lockheed, General Dynamics, and Rockwell International.

But, you say, either no quid pro quo is expected, and then such campaign contributions do not promote your attempts to get the government to work for you, or such contributions are tantamount to bribes to make a politician deliver a specific benefit to your corporation. You might be right, but that is not how Washington works. It is quite legal to make campaign contributions and to ask for specific favors as long as one does not explicitly tie the two together. Indeed, in the weeks in which a bill is drafted, campaign contributions flow particularly heavily to the members of those congressional committees who draft it, and during votes on the floor, to those who support the bill favored by corporations and by other special interests.

Rep. Mike Synar (D-Okla.), testifying before a congressional committee's task force on a bill he co-sponsored to restrict interest group activities, sees specific deals struck, though only implicitly: "No one here today is suggesting that PAC money buys votes. But it would be naive in the extreme to ignore the 'quid pro quo' implicit in PAC contributions. That money is given to influence the legislative process." "The process," testified former Rep. Bob Eckhardt, "has all the advantages of bribery and none of its risks."

Rep. William Brodhead, who decided not to stand for reelection, observes that there are ways to avoid the explicit offer of a bribe without losing the desired effect. He describes the process quite completely:

"The legalities are observed. You're talking about very subtle people on both sides. But when they couple an invitation to meet their PAC director with a pitch to vote for such and such a bill, well, it's pretty clear. . . . When we're all through talking about the legislation, they'll say, 'Could you give me the address of your campaign committee?'

"These people who are contributing to these campaigns are not stupid. They're buying something. It used to be a group would just agree with your philosophical outlook and would be willing to make the campaign contribution on that basis. Now votes are given in exchange for campaign contributions. That's what's happening around here."

An unidentified Washington representative of a defense contractor put the onus on Congress when he explained that showing a member the merits of a weapon for which he or she has to vote an appropriation is not enough: "You still have to meet their expectations with PAC contributions." Craig Palmer, a representative of the American Dental Association, admits: "Obviously, we contribute to members who support legislation we're interested in." Conservative Republican Minority Leader Robert Michel, commenting on farm legislation, said: "The dairy industry spreads an awful lot of money around, and that gets reflected in votes." And, from the other side of the fence, writes Lester L. Cooper, Jr.: "The business PAC I managed . . . contributed to [Representatives] Bob Eckhardt, Bob Kastenmeier, Ed Markey and Andy Maguire in 1980—because they had helped that company on a major issue." In short, campaign contributions work as a way to gain special favors without constituting bribes as long as the tie between the contribution given and the favor returned is kept, however slightly, implicit.

- Black stuff. Some individuals and some corporations (and some representatives of other interests) do offer bribes. But these days, mainly the uncouth resort to them. Why climb surreptitiously through the back window when the front doors are open? Do you want to line the pockets of a member of Congress? Give him/her one or more honoraria. Campaign contributions have a ceiling of $10,000 per PAC and you feel you need to give more. Form more PACs. The dairy industry has some twenty-one PACS, allowing it to contribute up to $210,000 to a single candidate for public office. And, because of a legal peculiarity, there is no limit on how much you can spend against a member's opponents, which makes a mockery of the limit set on how much you spend for a member.

True, unlike bribes which are given on the sly, campaign contributions must be reported to the Federal Election Commission, but there are ways to work around that, too. For instance, create a PAC under a completely different name. Or, give the money to a Washington law firm and let the firm log roll it under the protection of client-lawyer relations. Why risk violation of the law, being exposed by the investigative press, and being embarrassed before your stockholders if you keep a secret fund from which to pay bribes? PACs may be somewhat more indirect, but they are so much less risky. True, paying under the table took place during the Nixon era, but since Watergate most of the few who do pay that way are unfamiliar with the ways of Washington, some foreigners and a few people from small towns in the hinterlands. For instance, it was widely reported that Nelson Bunker Hunt helped the wife of Rep. George Hansen to make $870,000 on an "unusual" silver deal; also, "loans" were made. At the same time Representative Hansen led a drive in Con-
gress to authorize the government to buy more silver, of which the Hunt Brothers had a considerable surplus. Hansen was convicted and sentenced to a five-to-fifteen-month prison term.

THE OTHER SIDE

There are some good reasons for not partaking in the political economy. Some executives seem to believe that if they do not call on the government, it is less likely to call on them, although I am not familiar with any evidence to this effect. Some other executives, probably not familiar with the ways of Washington, doubt PACs and lobbyists do any good. Still others find the whole “business” distasteful. Hobnobbing with politicians as a way of making money is a long way from what they teach you in business school, and what your fellow industrialists (and your own kids) respect. Last but not least, PACing and underwriting lobbying with cash is bad for the economy and for democracy. It is a major reason deficits are so high. President Reagan’s 1981 American Economic Recovery Act, the kingpin of his economic policy, was originally estimated to entail a loss of $177 billion. Congress snowballed it to $355 billion plus fees sugar farmers, oil producers, and scores of other special interests. Moreover, excessive special-interest lobbying has perverted every economic policy from those of the Economic Development Administration (which ended up granting loans to 85.5 percent of the nation’s counties) to those of the Export-Import Bank (which serves large corporations, not necessarily exporters). In addition, such special-interest dominance breeds cynicism which erodes the foundations of democratic government. True, many other special interests are involved, but most are economic (e.g., 87 percent of the PACs), and corporate and industry lobbies are prominent among them. Many corporations, realizing the damage done, may well wish to bow out of politicking but can afford to do so only if their competitors would do the same.

WHAT MIGHT BE DONE?

A commonly mentioned remedy is getting the government out of the marketplace. If the government did not impose tariffs or quotas, make loans, or grant tax exemptions, it could not play favorites and enrich one corporation to the disadvantage of all others, the economy, and the democratic process. Unfortunately, however, as desirable as it might be to get the government out of the marketplace, and while its scope might be reduced, it is not about to cease to be a major economic factor. Even if the government were to tend only to defense, these expenditures alone provide hundreds of billions for contracts and hence are a major source of corporate favors. And to pay for these defense expenditures, taxes must be raised. Those who are allowed legally to avoid paying their share are another major source of government favors. While the recent tax legislation closed quite a few loopholes, it left many standing and—created new ones! For example, independent oil producers kept their allowance for depletion of reserves and their ability to “expense” all intangible drilling costs. And while defense contractors are still haggling, it seems they will be able to keep the privilege of deferring their tax liabilities from year to year.

The tax bill grants exemptions to any company incorporated on June 13, 1917.

The Tax Reform Act also grants exemptions from 10 percent excise tax and limits on foreign tax credit for any corporation incorporated on June 13, 1917. As one wiit put it, it may not help you with your 1040, but you do quite well if you are Phillips Petroleum. More loopholes are sure to follow. In short, he who awaits the closing of government to prevent unfair competition by the use of government favors will wait a long time indeed.

SPECIAL-INTEREST SUMMIT

A summit conference in which all special interests will agree from here on to play with one hand tied behind their back, using only information and arguments and not fees and campaign contributions in their efforts to sway members of Congress, a kind of political multilateral disarmament agreement among corporations (labor unions, farmers, and other), has much appeal. Unfortunately, it is not much more realistic than the dream of disarmament among the nations of the world. (By the way, if achieved, it would leave the field open to other special interests, from consumer lobbyists to environmentalists, from black business to foreign governments.)

Another approach is to limit lobbying and campaign contributions. Those who favor a major cleanup include Senate Majority Leader Robert Dole (R-Kan.) and Sen. David Boren (D-Okla.). Boren believes that there should be a ceiling on total PAC contributions to a candidate: 125,000 for representatives and between $200,000 and $750,000 for senators, depending on the size of the state. He also argues that broadcasting stations that accept PAC ads must offer equal time to the targeted candidates. There are numerous other proposals that are highly complex, but their problems, limitations, and
promise can be illustrated by looking at a select few.

There seems to be no effective way to curb lobbying, because to do so would also put a chilling effect on the right to petition Congress, with which lobbying is so closely associated. There are also practical difficulties. The suggestion to require all members of the executive branch to list in a registry the names of lobbyists who call on them, and to record how they disposed of the calls, might work—for the executive branch. But few, if any, members of Congress will agree to list all those who call on them and on their staff. And, if they did, the damage to the democratic process would exceed any gains. The most that can be done is not to allow corporations to deduct lobbying costs; to force them to pay for these costs with after-tax dollars. But all that would do is make lobbying more expensive, not prevent it. And, there are great, possibly insurmountable, difficulties in defining lobbying as distinct, for instance, from communicating information.

RAISE SALARIES

It is relatively easier, although far from easy, to curb the tendency to “augment” lobbying with hard cash by providing members of Congress with “lecture” fees and campaign contributions. The best way to curb fees is the most radical and simplest: Raise the salary of members of Congress to the limits they can now take fees ($22,530 for representatives and $30,400 for senators) on the condition that they will cease to take any money from private sources. While the public likes to keep the salary of politicians low, the public would be much better served if legislators were paid more but were less obligated to special interests.

Various complex schemes to limit campaign contributions have been suggested. Most plug a few holes but leave many others open; other suggestions are difficult to enforce; still others have been termed unconstitutional by the Supreme Court. The simplest solution is to provide for congressional elections what has already been provided for presidential elections: public financing. It was supported by both the GOP and Democrats, and President Reagan used public funds for his campaign just as Carter and Ford did. Presidential candidates qualify for public funds as long as they forego private funding. The opposition to extending public financing to encompass congressional elections draws in part on a philosophical confusion: Private market purists object, but there is no free market in politics and there is no reason to expect or wish for one. Does anyone really wish laws to go to the highest bidder and salaries of members of Congress to be paid from private sources? More distressing, the opposition to public financing comes from those who make most from the shady business of campaign contributions and are reluctant to give it up. It will take a ground swell of public and corporate conviction that we are all better off with as little political economics and as much real economics as possible before such curbs will be enacted. Meanwhile, corporate executives who stay out of the political economy are to be congratulated for their integrity and commiserated with—for the disadvantaged position in which they find themselves via their competitors. □