who can afford to have lobbyists represent them. If you're not in this group, not only do your priorities at best get short shrift, but more than likely your taxes—which are higher than they otherwise would be because of the special breaks obtained for others—are paying for what the lobbyists have won for their clients.

That makes the conclusion inescapable: The tax and spending priorities in the federal budget represent the few at the literal and figurative expense of the rest of us. D

How Big Money Corrupts the Economy

By Jacob S. Hacker & Nathaniel Loewentheil

If war is politics by other means, political spending is economic war by other means. Runaway campaign spending and lobbying don't just stand in the way of a fair political system. They also stand in the way of an economy that works for the middle class.

After all, why do corporations and the super-rich pour money into campaigns and lobbying? Sometimes political convictions are at play. But far more so than small-scale donors, the biggest spenders are investing in favorable policy outcomes. Money doesn't just give big spenders the chance to express a view or support a candidate; it gives them leverage to reshape the American economy in their favor. And as the richest have pulled away from the rest of America, the policies they want—extremely low tax rates on the wealthy at a time of record deficits, rampant underinvestment in our future, special treatment for corporations that are imposing major environmental costs and financial risks on our society—are increasingly at odds with the policies the country desperately needs.

Of course, money has always been part of American politics. William McKinley's political fixer, Mark Hanna, famously said, "There are two things that are important in politics. The first is money, and I can't remember what the second one is." But Hanna spoke at the end of an era, the Gilded Age of staggering inequality and government corruption. In the decades that followed, reformers

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acted on the calls of Theodore Roosevelt ("the supreme political task of our day... is to drive the special interests out of our public life") and Franklin Roosevelt ("we now know that government by organized money is as dangerous as government by organized mob") to reinvigorate a realm of civic life distinct from the disparities and imbalances of the market.

The goal was not just greater political equality. It was also to prevent the capture of government by powerful economic interests and to create space for economic policies that would further the interests of broad majorities of citizens. New rules for Wall Street prevented the destabilizing financial crises that were endemic under the hands-off regime demanded by the financial industry. Providing for workplace safety and economic security meant workers were better protected and more productive. Raising taxes on the wealthy funded investments in education and infrastructure, providing long-term benefits to society and the economy alike.

Today, however, the floodwalls between the market and democracy are washing away, and both sides of the barrier are being reshaped by the new currents of influence. It's not just the sheer volume of dollars that's driving the change. At least as important is the growing gulf between those at the commanding heights of our economy and the rest of Americans. The share of pretax national income going to the richest 0.1 percent has roughly quadrupled since the 1970s. At the same time, as our economy has grown more globalized and finance has increased in importance, many of the richest companies have increasingly separated themselves from the fate of ordinary U.S. workers. The interests of today's corporate titans are not as well aligned with the interests of the American middle class as they were a generation ago.

The consequences of these growing divides are visible all around us: a tepid response to the housing and jobs crisis even as Wall Street received a generous rescue; a recovery that's been much better for the richest 1 percent (who received 93 percent of pre-tax income gains in 2010) than for the rest of Americans; and rates of joblessness and underemployment that remain tragically high. Over the last generation, the middle class has faced rising health and education costs, weakened job and retirement security, and stagnating opportunities for advancement. Yet government too often has failed to respond, or has responded in ways that actually made the problems worse. A major reason is the weakening political clout of the middle class in a more money-centered political world.

WINNERS WRITE THE RULES

Two players in the market for political power have gained the most ground: the super-rich, and corporate and financial lobbies. To be sure, these are overlapping groups. Six in ten of the richest 0.1 percent of Americans are corporate or financial executives. The Koch brothers, for example, are both huge individual donors and leaders of an industry juggernaut. Nonetheless, it's useful to consider the groups separately. According to a recent survey of the super-wealthy by a team of enterprising political scientists, the rich are primarily concerned with taxes and deficits. Corporations care about these things too, but their primary focus is industry-specific regulations and subsidies. And while the super-rich focus heavily on contributions to campaigns (while also funding advocacy), corporations put most of their money into lobbying (while also funding campaigns).

The most important thing to bear in mind about the super-rich is that they are more conservative than average. In fact, much more so: While most voters rank creating jobs a much higher priority than reducing the deficit, the rich express exactly the opposite preference—which may explain why jobs don't seem to be such a high priority in Washington. And in contrast with voters of more modest means, the rich appear to support cutting even highly popular economic-security programs rather than raising taxes to close the budget gap. As the authors of the survey conclude, "If wealthy Americans have an extra measure of influence over policy making and public discourse, then their focus on deficit reduction and budget cutting may help explain why elite pundits and Washington politicians are currently contemplating deep cuts in the very social welfare programs that are most popular among ordinary Americans."

For those at the very top, the personal stakes are potentially huge: A study of the top 400 taxpaying households showed that just the reduction of effective individual income tax rates between 1995 and 2007 (from averages of 30 percent to 16.6 percent) was worth a mean of $46 million per year for *each* of these fortunate 400. The flip side of the aggressive pursuit of lower taxes by the rich has been chronic deficits and insufficient funds for public goods like infrastructure, education, and job training—areas where we are rapidly falling behind global competitors.

Rich conservative voters make for well-funded Republican campaigns. Right-wing super PACs have flourished not just because conservatives were the first to embrace them, but also because the super-rich are mostly Republicans. In the early part of the last election cycle, Karl Rove's Crossroads GPS disclosed that nearly 90 percent of its funds came from less than a couple dozen donors, with two donors giving $10 million each. According to a joint report by Demos and the U.S. Public Interest Research Group, more than half of the $230 million raised by super PACs from individuals in the first two quarters of 2012 came from just 47 people giving at least $1 million. This is one of the reasons why the GOP has moved so far to the right over the past generation: The rising sway of lobbying and big donors has generally reinforced their policy leanings. For Democrats, the consequences have been less happy. Caught between traditional commitments and the ever more intense scramble for money, they have faced pressures to moderate their stances on economic issues, as well as seek out supportive pools of money—whether in trial law or entertainment or finance—with policy interests that may not benefit the middle class.

For corporations and Wall Street, campaign finance is only one weapon. The other is direct spending to influence policy. Indeed, for most organized interests, spending on elections is just the training season; the real games begin once elected officials start governing. David Koch put it bluntly: "Our main interest is not participating in campaigns.... Our main interest is in policy." This from a man who, combined with his brother and the political network he leads, spent more in the 2012 election cycle than the entire campaign of John McCain did in 2008. One wonders what he'd be spending if campaigns *were* his main interest.

5-line pullquotes are best. 4-line pullquotes are also good and 6-line pullquotes are acceptable but not well liked dummy dummy copy dummy.

Activist financiers like the Kochs frame their efforts in terms of ideology. But one should not miss the heavy element of self-interest involved. Koch Industries, which is involved in industries ranging from manufacturing to energy production, benefits enormously from subsidies for big energy, as well as from the malign neglect of climate change—a status quo the Kochs have worked aggressively to preserve. And for most corporate lobbies, there's not even a screen of ideology. Their overriding goal is to protect or expand their market advantage. The financial industry lobbied to wipe out the New Deal-era rules that reduced systemic risks—but also industry profits. The pharmaceutical and hospital lobbies have repeatedly killed off threats to high medical prices, padding their pockets and driving up public and private spending. The oil and gas industries use their heft in Washington not only to oppose climate change policies, but to protect valuable land leases through which they are able to exploit public resources for pennies on the dollar.

Companies lobby not just for weak regulations and direct subsidies, but also to keep other pesky challenges to profits at bay. Workers' demands for unions can be headed off with new laws as well as anti-union drives within firms. Corporate taxes can be brought down with lobbying as well as clever tax planning: Of the eight companies that lobbied the most aggressively between 2007 and 2009, seven saw their tax rates fall from 2007 to 2010, and six saw declines of seven percentage points or more, even as the median company among 200 firms saw its tax rate fall by just 0.2 percent. The savings were worth an estimated $11 billion—which, if entirely due to lobbying, would indicate a return on investment of *over 2,000 percent*. Competitors can be beaten in the political arena as well as the market. The consolidation of the financial industry—in 2010, the five biggest banks held more than half of total bank assets, up from 30 percent in 2001—reflects not just economies of scale but also the implicit federal backstop that large banks enjoy because of their size and lobbying clout.

Lower taxes or no taxes, favorable regulations or no regulations—each group comes with its own agenda, and invests where the return is highest. In recent years, those investments have often taken the form of hiring members of Congress or executive branch officials and their staff for lobbying or other positions. A forthcoming study in the *American Economic Review* suggests that staffers' biggest attraction to lobbying shops is their connections: Revolving-door lobbyists experience a massive, immediate drop in lobbying revenue when a former boss leaves office. Hiring former public officials is a win-win deal: You win when your newly hired guns use their expertise to shape public policy, and you win when all public servants start thinking about their next, highly lucrative job.

Establishing the effect of any one lobbying foray or big campaign check is difficult. But the net effect is easy to see: an economy in which market winners write the rules, adding to their advantages and trampling over other priorities. All of this undermines public trust in government, breeds public cynicism, and makes the economy work less well for those without the clout to invest in politics. The danger is that the cycle will become self-reinforcing—which is why taking steps to break it is so important.

STARTING REFORM RIGHT NOW

Wealthy individuals and large corporations make financial investments in politics with the hope of improving their economic position. Politicians demand money because it helps win elections and secures their power. Any effort to curb the influence of concentrated economic interests has to address both the supply of and demand for political money.

Most reforms have focused on the former. Yet current First Amendment jurisprudence poses huge hurdles to spending regulations. Voluntary public financing will always be fragile in a system where some candidates can benefit from unlimited spending. Forging the legal basis for more significant regulation of campaign finance will require laying new intellectual foundations while gradually shifting the composition of the Supreme Court—the work of many years.

But while supply is a long-term problem, we can start reducing demand right now. Take lobbying: Members of Congress and agency officials depend on lobbyists in part because lobbyists provide genuine policy expertise and political information. The average member of the House has around eight staff members working on all policy issues, from trade to financial regulation to education policy, most of them twenty-somethings fresh out of college. The number and technical know-how of congressional staff should be increased, and sources of unbiased analytic information—like the Office of Technology Assessment, which Congress killed in 1995—created and expanded. Likewise, improving the quality, resources, pay, and staffing levels of personnel in key regulatory agencies like the Securities and Exchange Commission would help reduce the sway and influence of special interests—not only by increasing the capacity of the regulators, but also by making agency work more attractive as a long-term career.

The demand for political donations is a comparable problem. Why do politicians need so much money? Because it wins elections. If money didn't matter, politicians wouldn't want it. Money is needed for campaign staff, direct mail, get-out-the-vote operations, and, most costly of all, television advertising. If we can reduce the importance of advertising, the demand for money would be substantially reduced. Free airtime for candidates might be a good step, especially if combined with voter outreach and education.

Above all, we can make money matter less if we make more equally distributed political resources matter more. Encouraging voting through various means—from same-day registration to a national voting holiday—is one approach. Even more important, however, is building political organizations that can supplement the traditional but waning role of labor and other large-scale membership groups.

Whatever the strategy, the starting point is having the right conversation. Today, reformers stress the injustice of unequal political resources—and surely that injustice is real. But, as we argue in our recent report, "Prosperity Economics," the arguments that sound most loudly in current debate concern not broad values but hard economics. Middle-class Americans are losing their jobs and their economic security, and they believe government isn't looking out for them. Asked in mid-2010 whom government had helped "a great deal" during the downturn, 53 percent of Americans said banks and financial institutions. Forty-four percent pointed to large corporations. Just 2 percent thought federal policies had helped the middle class a great deal. Reformers need to explain how campaign donations and lobbying are undermining not only a healthy democracy that distributes political influence broadly, but also a healthy economy that distributes economic rewards broadly.

"Money to get power, power to protect money" was the motto of the Medici family. It seems sadly relevant to American politics today. Those powerful elites ruled Florence for centuries. We can't wait that long. **D**