

Virginia Viewpoint

Money for Nothing: Economics at Work in Practical Politics

By Richard E. Wagner, Ph.D.

Summary

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Have you ever wondered why so many corporate executives travel so often to Washington, D.C.? A study of the top 200 Fortune companies found that 65 percent of the chief executive officers traveled to Washington at least once every two weeks. Years ago New York was the prime location for national trade associations. Now it is Washington.

How is it that Washington has attained such commercial prominence when very little genuine production takes place there? The answer lies in two related economic concepts. One is called “rent seeking.” The other is called “rent extraction.” These concepts have nothing to do with landlords and tenants, nor with mining.

They have everything to do with politics. They provide good insight into how Washington has become such an apparent center of commerce. The significance of all this is explained crisply in the book, *Money for Nothing: Politicians, Rent Extraction, and Political Extortion*, published by the Harvard University Press in 1997. The book’s author is Fred McChesney, a Professor of Law at Northwestern University. While this book is an academic treatise written for scholars of law and economics, its themes warrant careful attention.

Rent seeking and rent extraction are to politics what bribery and extortion are to ordinary people. For ordinary people, these kinds of activities are wrong. In politics, they are business as usual.

Rent seeking describes what people have in mind by lobbying. It refers to the payments people make to secure political favors. A sports magnate would like special tax treatment for a stadium he is building. He lobbies to get this enacted or, more likely, hires someone to do this for him. In this regard, it is noteworthy that few defeated or retired legislators return to their home districts. Most of them stay in Washington, where their value as lobbyists is high.

If one person receives a favor worth \$250 million, the average tax bill paid by everyone else will be \$1 larger than it might have been. The prospect of gaining \$250 million will excite someone to strenuous effort. Only a fool or a zealot would be evoked into contesting politically the loss of \$1. The political dominance of such concentrated, special interests that rent seeking

continued

describes has doubtlessly motivated some of the efforts at reforming campaign finance.

However, rent seeking is only part of the story of money and politics, and perhaps only the minor part. Rent extraction may be even more significant. It refers to the payments people make to avoid being victimized by politically harmful measures. Rent seeking would be called bribery if it occurred between private persons; rent extraction would be called extortion.

McChesney (p. 2) uses Citicorp as an example of how corporations react to political rent extraction. "The nation's largest banking company employs eight registered lobbyists in its Washington office. In addition, six law firms represent Citicorp's interests on Capitol Hill. No one should judge this strike force ineffective by how little banking legislation gets through: the lobbyists spend most of their time blocking and blunting changes that could hurt Citicorp's extensive credit-card operations, student-loan business, or ever-broadening financial-service offerings."

Rent extraction by politicians is similar to the practice of "mud farming" that William Faulkner described in *The Reivers*. Late at night, farmers would plough up portions of the dirt roads in front of their houses, and then soak them. The cars that passed during the day would get stuck in the mud. The drivers faced a choice. They could abandon their cars or they could pay the farmers to hitch up their mules and extract the stuck cars--for a price, of course.

There is one vital difference between rent seeking and rent extraction that should not be ignored, and which may explain why the former has received more attention than the latter. With rent seeking, politicians are portrayed as relatively passive victims. They are deluged by lobbyists, and on occasion capitulate to those interests. The politician is caught in a squeeze between the intensity of special interests and the quietude of the public interest.

With rent extraction, politicians are in the forefront of the action. They are the active initiators who continually look for targets. Those targets, like the drivers who came across the mud farmers, have a choice. They can ignore the politicians and lose a lot of the wealth or they can participate politically, thereby softening their losses.

As long as government occupies some 50 percent of our economy, this is the way it will be. The political sector is simply too large for it to be any other way. To reduce the scope of political bribery and extortion is just one more good reason to limit severely the power of government.

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