Stopping Interest Groups Will Take More Than Words

Lobbying will exist as long as government can get its fingers within an economy. Eliminate the manipulation, and the rest will take care of itself.

Story By Matt Ryan

In late June, Gov. Joe Manchin convened the West Virginia Legislature for a special session designed to address campaign finance, among other issues. Because Election Day is drawing near, it's worth taking a look at the topic.

In 2005, the Legislature passed a bill concerning the disclosure requirements of those running for office. If a candidate wished to advertise in print media near election dates, for example, he or she would need to make clear from where the funding for the announcement originated. This legislation met opposition from the Center for Individual Freedom, a Virginia-based nonprofit organization that took the issue to court on the basis that it violated First Amendment rights.

In April, U.S. District Court Judge David Faber agreed with the Center, citing the "vagueness and overbreadth" of the measure. One of the goals of the special session was to clarify the original intention of the campaign finance legislation.

The focus of the legislation is special interests; presumably, lobbyists hiding behind the veil of anonymity will be deterred from buying favors from political candidates should their identity be revealed.

Whether this will happen remains to be seen. In any case, the effectiveness of the new rules will be difficult to judge. Reduced campaign funding in areas where donor identity is required does not automatically spell effectiveness; lobbying, after all, takes many forms and funds can simply be shifted into other still-shrouded means of support. A wide-ranging view of lobbying within West Virginia would be more appropriate--a task that is much easier said than done.

But the new laws sidestep the real issue. The root of the problem does not lie in the ability to obscure who gives money to whom; similarly, the solution will not appear by divulging this information. The problem lies in the ability of legislators to intervene into the economy.

Lobbying -- or rent-seeking -- exists because officials can manipulate the economy in favor of certain market participants. Political favoritism comes in a number of forms; direct fiscal gains in terms of tax breaks or credits, federal programs that benefit you at others' expense, eased regulation for you or increased regulation for your competitors. Economic actors, in turn, are willing to pay up to the amount that they expect to gain from the political process. The process is so damaging to economies because, unlike transactions in the marketplace in which society as a whole stands to benefit from individuals trading, social welfare is reduced by individuals diverting resources from productive activities into buying political favors.

At face value, it would seem as if transfers would be economically neutral -- neither wealth enhancing nor wealth reducing. Consider a simple example: John's taxes are raised $100 to lower Mike's by the same amount. On the surface, it seems that John's gain is Mike's loss -- in societal terms, no net change.

But consider now the resources spent to affect such a policy decision. As described above, Mike is willing to divert resources to lobby for such a tax change; should he hear of the possible change, John would as well. In our simple example, any effort expended to manipulate the tax code would generate a net loss to society -- the economically neutral transfer less the resources used to effect the change.

Lobbying provides a secondary avenue in which to witness the harm of an expansive government. Not only does the public sector crowd out the private sector, providing goods and services less efficiently in the process, but the competition for public-sector favoritism diverts still more productive resources from the marketplace. The compounding effect of government activity is important to realize; it more accurately suggests the true cost of additional public-sector provision, as well as the potential benefits of restraint and minimization.

It may be ironic that legislators are acting to limit special interest activity; after all, many representatives stand to gain quite a bit through the rent-seeking process. Nonetheless, the mindset is a welcome one, but their subsequent action should not be misguided. Lobbying will exist as long as government can get its fingers within an economy. Eliminate the manipulation, and the rest will take care of itself.

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