

EXTRA POINT

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Regulating the Washington Money Market

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The professor, the skipper, and Mr. Howell are marooned on an island. They have plenty of fresh water, but the only food available is in crates of cans that washed up on shore. The trouble is, they have no can opener. Fortunately, the professor is a noted chemist, the skipper is a physicist, and Mr.

little use. But there are others when economic principles can lead to a solution. Campaign finance reform is one such instance. Campaign finance reform proposals past and present suffer from one fatal flaw above all others: they fail to grasp the market they seek to regulate.

Why do individuals and corporations give money to political candidates and to political parties? To buy votes? To gain influence? Perhaps just to gain access? These are the usual answers offered, but they miss the mark. Money is drawn to politics because that is where the power is, in the form of taxes, spending, and regulations. Why do robbers target banks? Because that is where the money is. Why give money to politicians? Because that is where the money is. It's the flip side of the exact same coin.

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Howell is a free-market economist. The professor suggests putting a few drops of salt water on top of a can and use a magnifying glass to accelerate the rusting process, weakening the top of the can enough so that he can open it.

The skipper quickly points out they would all starve first. He then suggests he could build a contraption using rocks to smash open the top of the cans.

Mr. Howell objects that much food would be lost and that they needed to husband their food because they did not know when to expect a rescue. So the other two turn to the economist to demand his solution. After thinking just a moment Mr. Howell says, "First, assume a can opener."

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at the table grow with it, as do the risks of staying out of the game. This power is like a magnet, drawing campaign money from every direction. Increase the energy in the magnet

and you increase the flow of money seeking to control that energy.

In 1974 the current campaign finance limits were established severely limiting the amounts donors could give directly to candidates. Like water seeking a downhill path, money found another way to get to market.

If current avenues for contributions are closed, money would flow to new, independent groups that are not accountable to the candidates or the public. Imagine the ease with which organized crime or a foreign country could influence the domestic political process once these shadowy organizations could receive donations and buy political advertising.

First it was political action committees (PACs). Then it was "soft money", essentially the kinds of unlimited amounts donors could give to political parties, the kinds of donations President Clinton and Vice-President Gore made famous with their Asian connections.

Today's campaign finance reformers want to tighten these loopholes. Suppose they succeeded. Suppose PACs and soft money were banned and the bans found to be constitutional. Would the flow of money stop? Hardly. As the chaos theorist in Jurassic Park kept warning everyone, "nature (in this case, money) will find a way."

Increasingly, the money would flow to independent organizations. Politicians would be prohibited from directing these organizations, and many of them would be truly rogue. Most importantly, unless the Supreme Court makes a mockery of the constitutional right to free speech and free association, their fundamental independence would guarantee that the organizations themselves would be unaccountable to anyone. No one need know who gave what to which organization, how much they gave, or how the funds were spent. Even though the amounts donated to these organizations would not be tax deductible, for many donors this would be a small price to pay for anonymity. Indeed, imagine the ease with

which a foreign country, to say nothing of organized crime, could through its donations influence the domestic political process once these shadowy organizations and their activities become commonplace.

From the perspective of the politicians, this should be a frightening prospect. Once these independent organizations take root, the men and women running for office will have little or no influence over what is said on their behalf, or what attacks are launched against their opponents. Worse, organizations purporting to support a candidate could run million dollar ad campaigns trumpeting positions exactly opposite those of the candidate. For example, Members of Congress who support the right to sue Health Maintenance Organizations could well see ads running in their districts thanking them for opposing such a right.

At its heart, campaign finance reform is an attempt to regulate a market. Unfortunately, neither the regulators nor the reformers address the nature of the market they seek to control. As long as enormous political power can be found in Washington, D.C., there will be equally enormous pressures to influence that power. Money is the ultimate source of that influence. In such a market, regulations can redirect the flow and form of the money, but it is doubtful the flow can be even slowed.

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The obvious solution to dark concerns over campaign cash is sunshine. Deregulate the flows and publish the names of the donors and the amounts given. ♦



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