

Why businesses want the ear of government and are willing to pay for it

Written by The Conversation

Political donations and lobbying are a significant drain on the economy as it can [damage competition](#) create monopolies and [divert resources](#) to unproductive uses.

Every February, the [Australian Electoral Commission releases data](#) on political donations for the previous financial year. The data routinely show that [among the biggest corporate political donors](#) are mining, infrastructure and defence companies and groups.

These are also those with the most to gain from government contracts, and the most to lose from increased regulation or taxation.

Read more: [***A full ban on political donations would level the playing field – but is it the best approach?***](#)

Corporations donate to politicians [because of the access](#) that it brings. [Some economists](#) have argued lobbying is actually good for society, as it allows smaller businesses to “free ride” on the political spending of larger businesses.

But this is predicated on the idea that whatever the big businesses want (whether this be tax cuts or reduced regulations) can benefit all companies.

In the 2015-16 financial year, the Liberal and Labor parties [received approximately](#) A\$30 million in political donations. But this amount is dwarfed by spending on other lobbying activities (funding industry and advocacy bodies, for example, as well as internal communications teams), which [coul](#)

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A\$1 billion each year.

The cost-benefit of lobbying

In economics, the role of governments is to set the “rules of the game” for markets. So, if you have the money or connections to do so, lobbying governments for regulation, tax arrangements and contracts that benefit you, or hamper competitors, can lead to a significant advantage in an otherwise competitive market.

[Research](#) on lobbying in America has found that the return on investment can be as high as US\$220 for every US\$1 spent. This study investigated American firms that lobbied for a “tax holiday” in 2004, to allow them to repatriate profits at a lower tax rate that they had stored overseas.

So, the cost of lobbying the government (in terms of profits forgone) can actually be higher than not lobbying at all.

Read more: [*Lobbying 101: how interest groups influence politicians and the public to get what they want*](#)

But lobbying has also been [shown](#) to hamper competition from new companies and those just entering the market, by putting up barriers such as trade tariffs.

This means that companies often need to engage in political lobbying or risk ceding ground to competitors. Their competitors might have an opportunity to rig the rules of the game to their own benefit.

This can be seen particularly in the US, where the [pharmaceutical](#) and [tech lobbies](#) have been prolific in securing favourable regulations with regards to [patent rules](#), net neutrality and government subsidy programs (such as with the [cripplingly expensive](#) subsidised drug scheme).

Rent-seeking and monopolies

Another problem with lobbying is that it often leads to “[rent-seeking](#)”. This is where companies (or people) attempt to generate wealth without creating any benefit for society (through grants, subsidies, or tax breaks, for example).

Through privatisation, rent-seeking has led to private monopolies in areas like [major roads](#), [electricity](#) and [water infrastructure](#).

The cost of rent-seeking [can be hard to quantify](#). But [research in Europe](#) suggests that the cost of rent-seeking (due to income transfers, subsidies and preferential tax treatment) is approximately 7% of all economic output in the Eurozone area.

Companies can also use political lobbying to [get the government to pay for infrastructure](#), to get laws and regulators [to prosecute rivals](#), or simply to ensure that [the largest government contracts go to themselves](#).

Read more: [Explainer: net neutrality](#)

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The recent announcement that a Shorten-led Labor Party will [implement a federal integrity commission](#), as well as an increased focus on the [acceptability of large political donations](#), reflects the steady worsening of bad lobbying in Australia.

Lobbying needs to be taken more seriously than it has been. Distilled to its core, lobbying is the art of making government officials [feel indebted](#) to a lobbyist and/or their sponsor.

If corporations are incentivised to try to exploit governments, and governments are both the rule maker and breaker, then relying on the electorate to police its worst excesses is naive. Instead, we need highly specialised and independent bodies to tackle the problem.

However, for the regulation of lobbying to work, it is first necessary to recognise why bad lobbying occurs, how it occurs, and what can be done about it. Understanding the economic imperative of market actors, and the human imperatives of government decision-makers, is critical to offsetting the worst of lobbying.

George Rennie does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond their academic appointment.

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