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The Big Ripoff

The Greatest Trick the Devil Ever Pulled

This is a book about how the regular guy gets ripped off. But this book is different from most of the others: It is not about the victims as much as it is about the perpetrators.

This book doesn't focus on the regular guy's or gal's struggle. This book peers into the proverbial smoke-filled room where the ripoffs are planned and executed and shows you—the regular guy or gal—what goes on in that room. This book shows that the two most powerful characters in America—big business and big government—are in cahoots. You are their target.

Big business has too much power in Washington, according to 90 percent of Americans in a December 2005 poll. In the same survey, 85 percent said political action committees (PACs) had too much pull, while 74 percent said the same about lobbyists.[1] Campaign finance numbers and everyday headlines give Americans good reason to suspect that business is up to *something* in Washington.

In the 2004 elections, PACs, mostly representing big businesses or industries, donated over $300 million to political races.[2] In 2000, companies spent over $1.4 billion on lobbyists. In 2002, the average winning congressional candidate spent just under $1 million, with nearly half coming from PACs. A Senate seat cost about $5 million on average, with about a quarter of that amount coming from PACs.

Every week, headlines reveal some scandal involving politicians, lobbyists, corporate cash, and allegations of bribes. CEOs get face time with senators, cabinet secretaries, and presidents. Lawmakers and bureaucrats take laps through the revolving door between government and corporate lobbying. Whatever goes on behind closed doors between the CEOs and the senators or the lobbyists and the lawmakers can't be good or the doors would not be closed.

Just what is big business doing with all this influence? How is it that government is its partner?

There are many assumptions about big business's agenda in Washington. In 2003, one author asserted, "When corporations lobby governments, their usual goal is to avoid regulation."[3] This statement reflects the conventional wisdom. Historian Arthur Schlesinger articulated a similar point, but from the perspective of the government. Schlesinger wrote that "Liberalism in America [the progression of the welfare state and government intervention in the economy] has been ordinarily the movement on the part of the other sections of society to restrain the power of the business community."[4]

The standard assumption seems to be that government action protects ordinary people by restraining big business, which, in turn, wants to be left alone.

The facts point in an entirely different direction:

- Enron was a tireless advocate of strict global energy regulations supported by environmentalists. Enron also used its influence in Washington to keep laissez-faire bureaucrats *off* the federal commissions that regulate the energy industry.
- Philip Morris has aggressively supported heightened federal regulation over tobacco and tobacco advertising. Meanwhile, the state governments that sued Big Tobacco are now working to protect those same large cigarette companies from competition and lawsuits.
- A recent tax increase in Virginia passed because of the tireless support of the state's business leaders, and big business has a long history of supporting tax hikes.
- General Motors provided critical support for new stricter clean air rules that boosted the company's bottom line.

Most important, in these and hundreds of similar cases, the government action that helps big business hurts consumers, taxpayers, less established businesses, and smaller competitors. Following closely what big business does in Washington reveals a very different story from conventional wisdom.

Yes, big business has enormous influence in Washington. Yes, the fruits of the business-government intimacy often harm the "little guy," But, no, big business's usual goal is not to "avoid regulation." Nor is government regulation, taxation, or welfare usually aimed at "restrain[ing] the power" of big business.

The truth—as the stories in this book demonstrate—is that big business lobbies for and profits from big government policies that ripoff consumers, taxpayers, and entrepreneurs. Moreover, government is happy to comply.

The Big Myth

The myth is widespread and deeply rooted that big business and big government are rivals—that big business wants small government.

A 1935 *Chicago Daily Tribune* column argued that voting against Franklin D. Roosevelt was voting for big business. "Led by the President," the columnist wrote, "New Dealers have accepted the challenge, confident the people will repudiate organized business and give the Roosevelt program a new lease on life."[5] However, three days earlier, the president of the Chamber of Commerce and a group of other business leaders met with FDR to support expanding the New Deal.

The day after George W. Bush's inauguration in 2001, columnist Paul Krugman assailed the GOP. "The new guys in town are knee-jerk conservatives; they view too much government as the root of all evil, believe that what's good for big business is always good for America and think that the answer to every problem is to cut taxes and allow more pollution."[6] At the same time, "big business" just across the river in Virginia was ramping up its campaign for a tax increase, and Enron was lobbying Bush's closest advisors to support the Kyoto Protocol on climate change.

Months later, when Enron collapsed, writers attributed the company's corruption and obscene profits to "anarchic capitalism,"[7] and asserted that, "the Enron scandal makes it clear that the unfettered free market does not work."[8] In fact, Enron thrived in a world of complex regulations and begged for government handouts at every turn.

When President Bush helped defeat a congressional bill for strict new regulation of tobacco in 2004, Democratic Senator Tom Harkin charged that the president had "concurred with big tobacco."[9] In fact, Philip Morris openly and actively supported the bill that the president had opposed.

In 2004, an anti-Bush protest group that called itself "Billionaires for Bush," sporting false names such as "Phil T. Rich" and "Lucinda Regulations," tried to reinforce the conventional view that the rich (read: big business) and the Republicans are good friends. Big business and the filthy rich, however, are hardly staunch opponents of tight regulations, as evidenced by the money that the "Billionaires" received from actual billionaires who were certainly not for Bush.

When commentators *do* notice business looking for more federal regulation, they mark it up as an aberration.

When a *Washington Post* reporter noted in 1987 that airlines were asking Congress for help, she commented, "Last month, when the airline industry found itself pursued by state regulators seeking to police airline advertising, it looked for help in an unlikely place—Washington."[10] In truth, airline executives had been behind federal regulations of their industry for decades and had aggressively opposed deregulation.

That *Post* reporter was not the first journalist to be shocked by the airline industry's flirtation with government. A *Chicago Tribune* story in 1975 quoted top airline executives pleading for the preservation of strict federal regulations of airlines. The headline betrayed the writer's shock, "What's this? Airline chief wants continued control."[11] But airline executives had been in on the regulatory regime from the beginning.

In 1984, the National Association of Manufacturers (NAM) rated the members of Congress on their voting records, with a high score meaning the congressman was pro-manufacturer. Democratic Congressman James Jones scored higher than Republican Newt Gingrich, while Democrat Dan Rostenkowski, the leading tax hiker of the day, scored above average. Commentator Walter Olson declared, "NAM has broken with its old reputation as a bastion of laissez faire."[12]

But two years earlier, *Washington Post* reporter David Broder told this story: "When reporters left the headquarters of the Chamber of Commerce of the United States yesterday morning, after a news conference in which its president claimed that business is '10-to-1 against' President Reagan's tax increase bill, a strange sight greeted them. On the sidewalk was a publicity man from the National Association of Manufacturers with a handout claiming that 'the vast majority of American business leaders' favor passage of the bill 'as quickly as possible.' "[13]

While the president of the Chamber opposed the tax hike, about half of the board and its chairman favored higher taxes. Assumptions about business and taxes remained unchanged 11 years later. When the U.S. Chamber of

Commerce supported Bill Clinton's tax increase in 1993, columnists Rowland Evans and Robert Novak wrote about, "the switch of the U.S. Chamber, long an impassioned advocate of the free market."[14] At the same time, Republican Congressman John Boehner said the Chamber, "has refused to be what it had been in the past, a firebrand, principled organization."

And so it goes that every time a regulation is defeated, its proponents claim a victory for big business and a loss for the little gal. Every time commentators see a big business favoring higher taxes or greater regulation, they note it as an oddity.

The big myth is alive and well.

Ulterior Motives

"The greatest trick the devil ever pulled," said Kaiser Soze in the film *The Usual Suspects,* "was convincing the world he didn't exist." In a similar way, big business and big government prosper from the perception that they are rivals instead of partners (in plunder). If we don't see that big business lobbies for big government out of self-interest, we might assume that they are doing so out of altruism and thus put more stake in their argument than it deserves.

If a coal company argues against government limits on carbon dioxide emissions, any listener ought to consider the company's vested interests, as well as any legitimate points the company makes. But what about when Enron lobbied *for* the Kyoto Protocol—a treaty aimed at curbing global warming?

In 2002, after some journalists reported that Enron, like environmentalists, wanted Kyoto ratified, Timothy Noah, a *Slate* columnist, responded: "But the mere fact that Enron stood to benefit financially from the Kyoto Treaty, and therefore was pushing energetically for its passage, doesn't in itself constitute an argument against the Kyoto Treaty."[15]

Noah is correct. Just because Enron liked Kyoto doesn't make the Protocol bad. But it still matters that Enron, which would profit from Kyoto, was a loud lobbyist for its ratification.

Many people argue against regulations and higher taxes. Part of the conservative and libertarian arguments on these issues are that federal regulations often do little or no good for the environment, the worker, or whomever they are supposed to protect, while imposing heavy costs by driving up prices, driving up taxes, driving down wages, or creating shortages.

Sometimes, the regulation proponents engage in a debate weighing the costs and the benefits. Sometimes, however, the pro-regulation side just impugns the motives and the character of their opponents—a tactic used on all sides in every Washington scuffle. When George W. Bush opposes a new environmental rule, some green advocates simply say that Bush is evil, hates trees, and wants kids to drink more arsenic. This caricature is not very believable, in part because it ascribes no credible *motive* to the antiregulation forces.

A more common and more politically useful charge is that Bush receives campaign contributions from—and is personally friendly with—companies that stand to lose from a green regulation, and so he opposes the regulation. This charge is usually enough to at least cast doubt on antiregulatory arguments. Timothy Noah's rebuttal, however, is apropos here: Pointing out that Bush's supporters stand to gain from rolling back or blocking a regulation is not an argument in and of itself against the rollback.

Examining ulterior motives—be they pro or con—is a legitimate undertaking for the media. Proposed regulations are often deeply complex (as are the problems they address), and they carry immense uncertainty and countless possible unintended consequences. It might truly be impossible for the average reporter, reader, congressional representative, or voter to really understand all the arguments in favor of or in opposition to a proposed rule. Frankly, most people have better things to do with their time. On most policy issues, people are best served not by reading the cryptic proposed regulations and studying the underlying science but by listening to the experts and deciding whom they trust most. In that case, the ulterior motives matter.

Which brings us back to Enron and its support of Kyoto: We should consider how Enron would have profited from the implementation of the Kyoto Protocol and examine whether such business practices would be good or bad for us. Higher prices for coal and oil would be good for Enron and bad for us. More third-world, coal-fired power plants would be good for Enron and (if we believe carbon dioxide emissions are harmful) bad for us. This was Enron's business plan under Kyoto.

Full Disclosure

While we are discussing corporate money and ulterior motives, I want to fully disclose my affiliations. I wrote this book during two consecutive fellowships. The first fellowship was from the Phillips Foundation, a private foundation based on individual contributions that primarily fund the work of young journalists such as myself.

My second fellowship was a Warren T. Brookes Journalism Fellowship from Competitive Enterprise Institute (CEI). Competitive Enterprise Institute is a free-market think tank in Washington, DC, and, like most nonprofits in this town, it is funded in part by corporate donations—a fact that pro-regulation forces bring up most times a CEI spokesperson argues against government intrusion. I have not had contact with CEI donors: They have not reviewed my manuscript or contributed to the book. I have tried to remain ignorant about the identities of CEI's funders. As a result, I don't know if I discuss any of them in this book, but if I do, it is probably not in a flattering light.

It would be fair if you, or a critic, kept in mind that I have taken money from people who have taken money from corporations or corporate foundations, but I promise that not a word in this book, or a word omitted from this book, was influenced by any corporation. You also ought to consider two other points:

1. While my patrons are free-market advocates, the other side in the debate over regulation and big government also receives corporate funds. Many of the corporations that fund regulation advocates stand to profit directly from big government intrusion.
2. My arguments and reporting deserve to be considered on their own merits, even if you have some skepticism about the organizations that have funded my research. This applies across the board: Even after we discover that Enron stood to profit from Kyoto, or General Motors stood to profit from clean air laws, we still ought to listen to their arguments in favor of these regulations, and to the arguments of the groups they fund. While ulterior motives ought to be considered, the merits of the argument ought to have the most weight.

All that said, I primarily have a vested interest in this subject matter as a consumer, a taxpayer, and an independent working man.

How You Suffer

So Enron and General Motors get rich from regulations and big government, why should you care? Because government action doesn't *create* wealth—it *redistributes* it. This means Enron's government-aided profits come from somewhere—you.

That companies would profit from a particular policy does not matter in itself. Profit is not immoral. In fact, when undertaken with ethics and fair play, profit is a noble pursuit with many beneficial side effects for individuals and society. The problem comes when businesses try to make a profit by lobbying to take away your freedom and your money to their nearly sole benefit.

Whenever the government makes a new mandate, tax, or prohibition, we all sacrifice a little bit of our freedom. Sometimes it may be a worthy trade. Funds are needed for police, firefighters, or national defense, for instance. Maybe you think that the police do a lousy job or that our military is too big or too adventurous, but unless these functions are to be abolished altogether, we must accept some tax burden. This means we must give up control over some of our money.

If a state government requires that all high school football players wear pads and helmets on the field, a little freedom is lost because choice is stripped from the game. In this case, though, the freedom lost is a freedom to do something we probably wouldn't want to do anyway: play helmetless football against a team wearing helmets. We don't really complain about this sort of government intrusion on our freedom.

But if the government starts restricting our freedom to benefit somebody else—somebody we don't think deserves it—we ought to be upset because the restrictions have a real cost. Government action makes us poorer and less free. On a strictly economic level, government action almost always reduces the net wealth of society.

Government can't *create* wealth. If the government is giving a bonus to Boeing, the money is coming from somewhere. Usually, it comes from you, without your knowledge or specific consent. In the most direct cases of corporate welfare, the government taxes you and hands your tax dollars to some corporation. Maybe the corporation will use that money to hire people, and so the government and the corporation will argue that this redistribution of wealth "created" jobs. But this assumes that if you had not handed that money over to the taxman you would have wasted it. Comic writer Dave Barry ridiculed this line of reasoning: "When government spends money, it creates jobs; whereas when money is left in the hands of taxpayers, God only knows what they do with it. Bake it into pies, probably. Anything to avoid creating jobs."

Of course, if you paid less in taxes, you might take your family on vacation, buy some new books, send your children to a better college, or go out to dinner. All Americans would do the same. That would create jobs—jobs that would provide products and services that we want.

Businesspeople, small and big, respond to incentives. If people want ice cream, a businessman or businesswoman will sell ice cream—not because he or she is nice, but because he or she knows people will spend money on ice cream. This creates a happy situation—if there's something people want, as long as they are willing and able to spend money on it, sooner or later someone will sell it.

But when government takes your money and spends it for you, you suddenly lose that power. Suppliers begin responding to what government wants instead of to what you, the consumer, want. When the government takes steps to enrich some big business with your money, you lose twice—you are poorer thanks to taxes, and your voice matters less in the marketplace.

Regulations are similar. Business obeys the almighty dollar, which, in turn, means that it obeys the consumer. A businessperson dedicates time and money to answering consumer demands. But when government starts regulating, business has two masters—the people and the bureaucrats. Also, regulation tends to drive up prices. Regulation bears three costs: prices go up, your choice is restricted, and you lose your voice.

Finally, regulations and taxes might keep you out of business entirely or drive you out of business if you are an entrepreneur.

Despite all these burdens, some regulations are worth the costs. We pay more in airfare because the government requires that pilots be licensed, but if that significantly reduces crashes, we're willing to make that sacrifice. The economic costs of making the marketplace less efficient are often worthy sacrifices for noneconomic gains.

But many regulations and wealth transfers are just ripoffs.

Don't Hate the Player, Hate the Game

Who is the real bad guy?

Wal-Mart, for example, takes millions and millions of dollars in favors from the government. The retail giant, like many other big stores, often receives special exemptions from paying the taxes that you or other businesses have to pay. Frequently, governments will pave Wal-Mart's driveways, give them free land, and take care of housing and training the company's employees. All of these government favors make you poorer and Wal-Mart richer.

But should we really blame Wal-Mart?

If you were about to set up a corner store, and the mayor, eager to develop Main Street came up to you and said, "Joe (or Joanna) Smith, the city owns the lot at the corner of 11th and Main, would you like it for free?" Would you say, "No, your honor, I'll pay full market price for that lot so that the good people of this town get their money's worth"? Maybe you would. Maybe you wouldn't be able to sleep at night if the town raised taxes to pay for benefits that you got.

But when John Bull launches his corner store on 10th and Main, and he *accepts* the mayor's offer, you're in trouble. Operating on lower overhead, Bull can probably undercut your prices. Suddenly, your altruism starts looking like bad business.

If you're a noble chap or lass, you might say, "I'd rather lose money the honest way than make money by taking it from the people." But your wife or husband and your children, consigned now to eating rice and lentils every night, might not agree. And what about your investors? What about your brother-in-law who invested half of his savings in your store? Do you console him by saying, "Buddy, your investment may not return any money to you, but I took a moral stand, which has value beyond riches"? I doubt this would make your brother-in-law feel better about losing his money.

Wal-Mart owes as much to its shareholders as the corner-store owner owes to his brother-in-law/investor. If politicians are so eager to lure in Wal-Mart that they offer them every favor they can think of, should Wal-Mart be blamed for not turning it down? It is a tricky question, and one this book does not try to answer. You have to ask yourself what you would do in the same situation. Free money is tough for even the most stalwart ethicist to decline.

Business faces another conundrum in the unholy alliance with government: Politics is not their game. Businesspeople know business. They don't necessarily know politics. Accordingly, many of them deal with politicians and bureaucrats a little uneasily. If a policy question arises, and a businessperson has to choose between battling politicians or working with them, he or she will often work with them. When playing politics, a businessperson is playing on foreign turf.

But staying out of politics is not an option—as some companies have learned the hard way. In the late 1990s, the federal government took on Microsoft, with Congress calling hearings on its business practices and prosecutors hunting down antitrust violations. In March of 1998, one congressional staffer exclaimed the software company had it coming: "The industry had an attitude that government should do what it needs to do but leave us alone. . . . Their hands-off approach to Washington will come back to haunt them."[16] It was a common criticism of Microsoft by lawmakers and bureaucrats: The company leaders were *so* arrogant that they only cared about making software and didn't even try to play politics. Imagine that.

But Bill Gates learned his lesson. After having to sit through a scolding of a Senate Judiciary Committee hearing, Gates wrote, "It's been a year since I was in D.C. I think I'm going to be making this trip a lot more frequently from now on." America Online CEO Stephen Case read the landscape clearly and said, "it's increasingly clear the industry's future is less about technology and more about policy."[17]

And so business has no choice but to play the political game, which includes hiring the best lobbyists. Case's comment reveals another cost to the regular guy and gal that this big business-big government marriage provides: Companies choose investing in good lobbyists over creating better products. Where a better product helps both the company and you, the consumer who uses it, a better lobbyist helps only the company and the lawmaker who then gets the lobbyist's love and gratitude. But lobbyists don't give us better products, new technology, life-saving drugs, or advanced medical devices. Lobbyists don't make iPods, create more efficient appliances, or get your flight to Orlando on time.

This whole arrangement creates a vicious circle. When more lobbyists come to town, they ask for more favors. This gets government involved in new areas. As government's power and reach grows, businesses need to care even more about Washington, and so on.

It also creates what Catholics would call an "occasion of sin." Why do companies spend billions on lobbyists and give millions to candidates?

Businesses are willing to spend billions on politics because there is so much at stake. A regulation that hurts a competitor is invaluable. A taxpayer-funded loan can make or break a huge deal. One clause of one sentence in a regulation can be the difference between huge profits and huge losses. The most effective campaign finance reform or the most effective lobbying reform would be to make the seats of power less lucrative, and in turn to make access to politicians less valuable.

If, at times, this book sounds like an attack on big business, it is not intended to be. It is an attack on certain *practices* of big business. In the parlance of contemporary hip-hop, "don't hate the player, hate the game." Most of the stories in this book depict business cleverly playing by the crooked rules of politics and end with you being ripped off. The blame lies with those who wrote the rules.

The Lesson

Reducing the power of the government over business would alleviate some corruption and level the playing field. In a smaller government environment, Joe and Joanna Smith wouldn't be ripped off quite so much. Businesses will always do whatever they can to make money. If they have government available as a tool, they will use it. Government and business working together, as this book shows you, make a very dangerous coupling—almost like a drug dealer and an addict.

This book shows you the nature of this addiction and how it harms regular people the most. Many will read these stories and feel frustrated, wondering how they can possibly fight a system where the players are so entrenched, wealthy, and resource rich. But as Alcoholics Anonymous says: The first step to recovery is to admit that you have a problem. This book uncovers the problem.