Vol. XXXIV No. 8

ECONOMIC EDUCATION BULLETIN

August 1994

Published by

AMERICAN INSTITUTE for ECONOMIC RESEARCH

Great Barrington, Massachusetts 01230

The Growth of the Parasite Economy

by Jonathan Rauch*

Ross Perot was fond of saying, in the 1992 presidential campaign, that the giant sucking noise you heard was the sound of jobs being vacuumed up by low-wage countries south of the border. He was wrong. The giant sucking noise was the sound of the whirlpool in Washington, sucking up investment capital, talent, energy.

By definition, government's power to solve problems comes from its ability to reassign resources, whether by taxing, spending, regulating, or simply passing laws. But that very ability energizes countless investors and entrepreneurs and ordinary Americans to go digging for gold by lobbying government. In time, a whole industry—large, sophisticated, professionalized, and to a considerable extent self-serving—emerges and then assumes a life of its own.

In the late 1920s, a congressional investigation found about 400 lobbies in the Washington phone book; in 1950, a congressional commission counted more than 2,000. Though the numbers were small, the growth was impressive. The big movement toward organizing into groups began about half a century ago and sped up in the last two or three decades. Perhaps most striking, because of the sheer number of people involved, is the explosion of membership of the American Association of Retired Persons. As Chart 1 shows, as recently as 1965, the group still boasted fewer than a million members, which meant that only 1 in 30 Social Security beneficiaries had actually joined. That was as one would expect: banding together takes time. But once the ball starts rolling, watch out. In the 1970s, the elderly began joining with a vengeance; between 1980 and 1990 alone, the group tripled its membership. By the early 1990s, the AARP's membership included the vast majority of Social Security recipients; the organization's headquarters in Washington had grown so large as to have its own ZIP code, a legislative and policy staff of 125 people, and 16 registered lobbyists with a $3.5-million budget.

The AARP's story is not special; it is typical. The American Federation of State, County and Municipal Employees was founded in 1936. By 1955, the group had organized only about 1 in 25 of its potential members; by 1975, it had organized more than 1 in 8.

Or look at the American Society of Association Executives, the association of people who run associations. As shown in Chart 2, after its founding in 1920, the group grew steadily through the 1960s, and then really took off after that, with membership increasing sixfold from 1970 to 1990.

There are many cultural and technological explanations for that growth. Yet it's a mistake, when dealing with human beings, to overlook crass, material explanations. Like the bank robber Willie Sutton, Americans look for cash where the money is. If the costs of a certain kind of activity fall over time, and if the potential benefits grow, then you expect more people to engage in it. And that is what has happened with group forming.

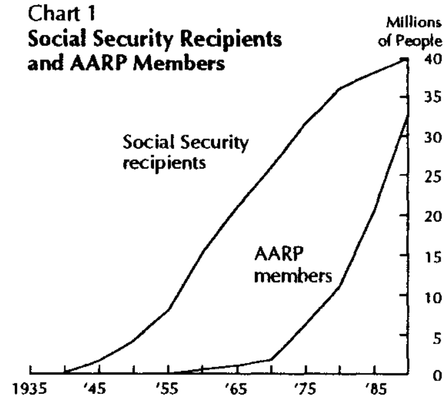
In 1929, the United States government's entire budget occupied 3 percent of the American economy. Even through the 1930s, when the economy was shrinking and the New Deal was in full flower, the federal government still took up only around 10 percent of the economy, on average.

Many objective measures—the numbers and length of laws, of regulations, of court decisions—suggest that the big jump in the level of federal activism came in the Johnson and Nixon years, around the same time as the rate of group formation took off.

Today, the federal budget is almost a quarter of the entire American economy. To the direct spending must be added thousands of laws and regulations that redirect private money, time, and energy. Regulations now cost Americans, economists estimate, several hundred billion dollars a year, or several thousand dollars per American household per year.

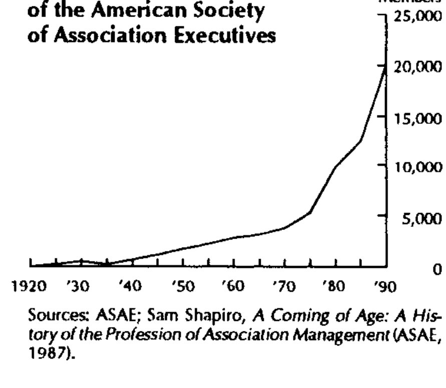
But doesn't transfer seeking create jobs? After all, if I hire a lobbyist to win a subsidy, that money doesn't disappear into a black hole. Rather, it hires secre-

Chart 1
Social Security Recipients and AARP Members



Note: Social Security was enacted in 1935. The AARP was founded in 1958.
Sources: American Association of Retired Persons; Social Security Administration.

Chart 2
Membership of the American Society of Association Executives



Sources: ASAE; Sam Shapiro, *A Coming of Age: A History of the Profession of Association Management* (ASAE, 1987).

* Jonathan Rauch is the author of *Kindly Inquisitors: The New Attacks on Free Thought* (Cato Institute/University of Chicago Press, 1993) and *Demosclerosis: The Silent Killer of American Government* (Times Books, 1994), from which this article is excerpted with permission.

taries, rents office space, buys a Xerox machine, and so on.

True, but from an economic point of view, paying people to capture more of other people's money is like hiring people to steal cars. If I hire workers to build cars, the result is new jobs and new cars. But if I hire people to steal existing cars, I have merely moved jobs out of the productive sector and into the car-theft sector. But no one would think those jobs were making society as a whole better off. They create activity, but they destroy wealth.

In America, only a few classes of people have the power to take your money if you don't fend them off. One is the criminal class. Criminals, however, aren't the only ones who play the distributive game. Legal, noncriminal transfer seeking is perfectly possible—on one condition. You need the law's help. That is, you need to persuade politicians or courts to intervene on your behalf.

A Parasite Census

Unfortunately, the Commerce Department's national accounts don't include a line for transfer seeking, and the Labor Department's employment figures don't have a "wealth-sucking parasites" category. Even in principle, it is impossible to know just how much transfer seeking goes on, because economists, true to form, disagree on what exactly counts as transfer seeking.

Still, there are things you can count. Since most transfer-seeking professionals are lawyers or lobbyists, we have a clue where to begin.

Since 1955, the number of law degrees granted annually in the United States has more than quadrupled, even though the population has grown by only about 50 percent over the same period. In effect, a larger and larger share of American talent has been going into the legal business. From 1870 to 1970, the proportion of lawyers stayed about the same; since then it has more than doubled. The number of lawyers in Washington, D.C., grew even faster, quadrupling just between 1972 and 1987.

Not surprisingly, you find a parallel pattern if you count lawsuits. The number of filings in the federal courts drifted mildly upward from 1950 to the mid-1960s; but then it took off, nearly quadrupling by the mid-1980s. When I asked Brian J. Ostrom, of the National Center for State Courts, about state lawsuits, he said: "The amount of litigation in state courts grows every year. It's always increasing—by an amount in excess of population growth. The process of people making mutually acceptable bargains among themselves seems to be breaking down."

The increase in lawyers and litigation probably has several causes. One might be an increase in people's contentiousness. Another cause might be lawyers themselves. To some extent, they can act as transfer-seeking entrepreneurs. Long before science had any real idea whether electromagnetic fields from power lines caused cancer, lawyers were lining up clients and preparing to sue power companies. One enterprising lawyer, reported *The Wall Street Journal*, carved out a niche as "the leader of a nationwide group of law firms eager to turn E.M.E [electromagnetic fields] into a legal battleground." Another lawyer said, "All it's going to take is one or two good hits [*i.e.*, big judgments against power companies] and the sharks will start circling." Lawyers' constant scouring of the law for new claims and claimants, and then for new defenses against those new claims and claimants, can and does feed litigation and distributional struggle.

Almost certainly, however, the biggest cause of more lawyers and more litigation is more laws. To take just one example, in 1990 Congress passed, and the president signed, the Americans with Disabilities Act. The act was billed as a civil-rights measure, but it was also a broad new economic entitlement, transferring resources from society generally to the disabled. As such, it was a good example of how transfer seeking can be driven equally well by idealism (advocates for the disabled wanted their rights) or pecuniary interests (activists for the disabled wanted more social spending)—indeed, the two are hard, or even downright impossible, to tell apart. "Most major law firms," the *Washington Post* reported in 1992, "are well aware that the [ADA] will open up a vast new area of discrimination law and, potentially, a lot of business."

Lawyers do a lot of things besides litigate back and forth over existing wealth, and to blame the lawyers is in many instances to confuse the symptom with the illness. Lobbyists, by contrast, are wholly creatures of the transfer-seeking economy. That makes them an even better thing to count than lawyers or lawsuits.

There are, alas, only estimates, because we don't require lobbying licenses and many people lobby who aren't full-time lobbyists. One measure is the number of people who register with the Senate as actively lobbying on Capitol Hill, though that is only a small fraction of all lobbyists. The number tripled in the decade after 1976 (the year when the records begin); it dropped in 1988, but then bounced back up.

Various other counts show increases. *Congressional Quarterly* reports that the number of people lobbying in Washington at least doubled and may have quadrupled between the mid-1970s and mid-1980s. (State capitals, by the way, also show healthy increases.) Between 1961 and 1982, the number of corporations with Washington offices increased tenfold. Meanwhile, many companies that already maintained lobbying and public-affairs offices expanded them; one study found that almost two-thirds of companies surveyed had increased their public-affairs staffs between 1975 and 1980. The Washington office of General Motors employed 3 people in 1968 and 28 in 1978, though no cars were built in the District of Columbia. By 1992, roughly 92,000 people worked in Washington for groups and firms seeking to influence policy, according to a count by the political scientist James A. Thurber.

Another indication of whether the transfer-seeking economy is growing is political spending. If the investment in political campaigns grew from 1968 to 1992, you can assume that more people were spotting politics—ergo, transfer seeking—as a sound investment.

Perhaps you could wave aside an increase in the number of lawyers *or* of lobbyists *or* of political contributions *or* of interest groups. But, as far as I can see, there is only one way to read the fact that *all* of those numbers rose sharply beginning in the 1960s and early 1970s, and continued to rise through the Reagan-Bush 1980s. America was a society increasingly structured for, and so dedicated to, transfer seeking.

Perpetual Motion

In time, a curious thing happens. As the parasite economy thrives, transfer-seeking agents become wealthy and numerous. They become a powerful interest group in their own right. On the one side, they develop and pursue claims on behalf of their clients. On the other side, they act as an interest group to keep the game going. When there are enough of them, they may begin using their access to government to draw more resources into lobbying. At that stage, the parasite economy may take on the peculiar ability to grow entrepreneurially. In effect, it goes into business for itself.

Most Americans are aware of the power of business interests to influence politics with money. Few are aware, however, of the extent to which the influence business now is a business interest. In 1990, notes the Center for Responsive Politics, a watchdog group that monitors money in politics, fully 10 percent of all business-sector contributions to congressional campaigns came from lawyers and lobbyists. In 1992, the center examined more than $240 million in political contributions of $200 or more. Then it broke down the contributions by industry. Insurance gave almost $10 million, as did oil and gas; the securities and investment industry gave more than $11 million. But at the top of the list, with almost $13 million in political contributions, were none other than lawyers and lobbyists. They gave more than $2 million to George Bush and well over half again that much to Bill Clinton.

Government itself becomes a marketable resource and a profit center for an expanding group of career-minded professionals, many of whom use government jobs as stepping stones to lucrative careers lobbying government. According to *Congress Daily/A.M.*, fully 40 percent of the members of the House of Representatives who left office in January 1993 went to work as lobbyists. Though no one can prove that politicians and Capitol Hill staff members gin up laws and programs and regulations to create jobs for themselves with interest groups and lobbying firms, everyone suspects that it happens, a fact which is itself corrosive of democracy.

Those resource-shuffling professionals have a weird incentive: any kind of distributional struggle benefits them. The more transfer-seeking battles they manage to spark, the better off they will be. Every new legislative fight, every new lawsuit, every new regulatory struggle means new fees for politicians and lawyers and lobbyists, at least in the short and medium term. They win, as a class, no matter who else loses.

The mere possibility of government action pulls resources into the whirlpool. From 1979 to 1991, the number of health-care groups in Washington more than sextupled. Why? From 1960 to 1990, the proportion of health care paid for by the government doubled, to two-fifths. Add the talk of health-care reform, and you had Washington staging a show that no one could afford to miss. In July 1991, the American Hospital Association moved its top officers to Washington, believing that they "should be closer to the action." In March 1992, the American Nurses Association moved its headquarters—and half a million pounds of office furniture and equipment—to Washington, after 20 years in Kansas City. "We have nursing's agenda for health-care reform," they said. And so it goes. In 1971, 19 percent of trade and professional associations were headquartered in Washington; by 1990, 32 percent, and counting.

The Costs of Transfer Seeking

Here is a key to the transfer-seeking economy's ability to grow even when society would be better off if it shrank: benefits from lobbying—subsidy checks, tax breaks, favorable regulations, court awards, and so on—are highly visible; but the costs—the waste, the inefficiency, the rigidities, the complexities, the policy incoherence as subsidies and deals redistribute money in every direction at once—are diffuse and often invisible. Maritime interests are only too well aware of the large subsidies they receive ($112,000 per job, at costs to consumers running into the billions each year): in 1990, they paid almost $4 million in political contributions. But are you aware of the higher shipping costs you pay? Of the investment forgone because of the tidy lump of money that the maritime lobby has captured? And even if you were, would you care enough to tackle that determined and well-funded lobby, for the sake of the productivity of the economy as a whole?

There are at least three kinds of costs arising from the accumulation and interaction of programs and benefits and subsidies and anti-competitive rules. First, the cost of direct investment in the transfer-seeking economy. Second, the cost of defensive maneuvering against potential transfer seekers. Third, and largest, the cost of the subsidies and rules that transfer seekers put in place.

How much do we feed the parasite economy and its professionals? It's hard to know, but some of the components give a sense of magnitude.

We have a rough idea what we feed lawyers, though lawyers do a lot besides transfer seeking. "A conservative estimate is that legal services now account for 2 percent of the economy's output," writes the economics columnist Robert J. Samuelson. "In 1991, law firms collected an estimated $100 billion in revenues, up from $10.9 billion in 1972. That's double the growth rate of the total economy."

How much lobbyists earn in aggregate, we don't know. The economists David N. Laband and John P. Sophocleus have estimated that about $4.6 billion was spent on state and federal lobbying in 1985. Today, of course, it would be more. As for politicians, in 1992 the direct investment in them ran to more than $3 billion, according to Herbert E. Alexander of the University of Southern California.

Still harder to count are the amounts spent as Americans struggle to stay up to speed on the transfer-seeking game. If you're a lobbyist or group organizer, you'll need magazines, books, electronic-information services, databases, seminars, who's-who directories, consultants, and more.

Add up the costs of paying for transfer-seeking professionals and paraphernalia, and you have a sum somewhere in the tens of billions. A surprising aspect of that sum is how small it is—in the range of 1 percent of the gross national product. Remember, however, that much of this money comes out of the pool of investment capital, which runs to less than $300 billion (on a net basis). Diverting precious capital from productive investment is not a very good idea.

If you stopped there, you could safely conclude that the parasite economy isn't all that expensive to support. However, the direct costs of paying transfer agents are only the tip of the proverbial iceberg. To bring more above the surface, move to another hidden cost, one which is even harder to trace with any precision but probably an order of magnitude more expensive.

That is the cost of defensiveness and uncertainty generated by the very existence of the transfer-seeking economy. On a block where burglaries are common, people spend heavily on alarms and guards and outdoor lights, even if they have never actually been burglarized. Something a bit like that happens in a society where transfer seeking is common: companies maintain huge legal staffs, open more Washington offices, or even avoid businesses that seem vulnerable to litigation.

Steepest of all is the cost of the goodies themselves: damage done as industrious transfer seekers weave distortions and inefficiencies into the economy.

For instance, billions and billions of pounds of perfectly good fruit have been destroyed year after year by government order. "They lie rotting in the California desert, piled 15 feet high over areas the size of football fields," reported *The Economist* in 1992. "Every year something like 2 billion juicy oranges and millions of lemons have been banned by federal decree from American shops." Yet through higher prices, consumers effectively paid for the fruit they could not eat: a classic deadweight loss.

In the developed nations, all of which run expensive agricultural programs working at cross purposes with themselves and each other, farm subsidies cost consumers and taxpayers the staggering sum of $350 billion *a year*, according to estimates by the Organization for Economic Cooperation and Development.

Another example: When the sellers of smaller and cheaper kinds of mobile phones needed radio frequencies, the existing frequency users moved in Congress to prevent the government from granting them. The result of such maneuvering was to delay the introduction of new technology and raise its cost.

Or again: Over the 1980s, almost all states curtailed employers' ability to fire workers at will. That seems harmless enough, but the picture isn't complete until you also look at the costs. When firing becomes riskier for employers, hiring necessarily also becomes riskier, and employers look for ways to avoid doing it. A 1992 RAND study found that the result was a loss of total U.S. employment in the range of 2 percent to 5 percent, a cost that the think tank dryly described as "quite large."

One can go on and on in this way. The vast majority of subsidies and anti-competitive deals distort resource flows and slow the economy's ability to adapt. In today's globalized economy, that problem may be even more serious than it was in the 1950s or 1960s.

Grand Total

Now suppose you want to add up the bill.

Scholars who do this kind of work, according to Robert D. Tollison, an economist who specializes in transfer seeking, come up with a range of cost estimates, all of them necessarily squishy. About the lowest is 3 percent of the gross national product a year. At the other end of the range, David Laband figured that Americans—including criminals as well as legal transfer seekers—invested about $1 trillion in transfer activity in 1985, which would have been about a quarter of the GNP that year.

However, most estimates cluster in the range of 5 percent to 12 percent of GNP every year. In 1993, that would be $300 billion to $700 billion. If those estimates are in the ballpark, then by hunting for redistributive goodies Americans make themselves about 5 percent to 12 percent poorer than they otherwise would be.

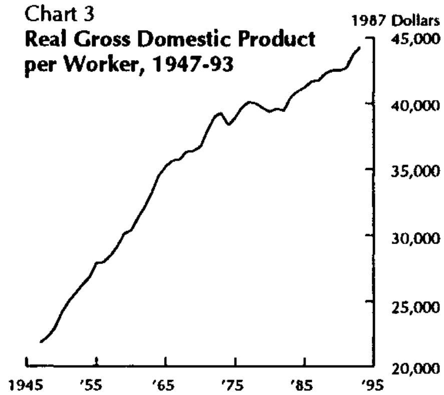
And now I want to show why you should care. Chart 3 is one of the most basic of all economic charts. It shows, in inflation-adjusted dollars, the amount of output produced per worker in the economy since 1948. It also shows the most important single economic phenomenon of the postwar era. Around 1973, something happened. The economy's productivity growth rate shifted to a slower track. If real output per worker had continued to rise after 1973 at the same average rate as it did before, it would have been about 40 percent higher than it actually is. In other words, Americans would be about 40 percent richer.

You may have noticed that the productivity curve in Chart 3 looks a little bit like the growth curves for groups and lawyers and political contributions and so on—except upside down. The period of hyperpluralism and the period of slow growth roughly coincide. That may be, literally, a coincidence. We don't know. Transfer seeking is certainly not the sole culprit in the post-1973 economic sea change. On the other hand, it is very likely that the substitution of transfer seeking for productive investment is at least one of the factors behind slow long-term growth.

And Still They Come

Meanwhile, the governing environment isn't getting any cleaner. Left alone, groups keep forming and growing; transfer seekers keep hunting up new subsidies and perks; hyperpluralism becomes more hyper and the parasite economy thrives. The cleanup job left undone this year becomes bigger next year.

Chart 3
Real Gross Domestic Product per Worker, 1947-93



Sources: U.S. Department of Commerce; U.S. Department of Labor.

During the first year of the Clinton administration, lobbies and groups and associations kept streaming to Washington. The Motor Vehicle Manufacturers Association (now the American Automobile Manufacturers Association) announced that it was moving its headquarters to Washington after 92 years in Detroit. The Business Roundtable, a chief executives' group, moved its main office down from New York City. MasterCard International moved its government-relations shop from New York to Washington; its competitor VISA, citing a flurry of regulatory and legislative activity that could affect the company, opened a Washington office, headed by a former staff member of the Senate Banking Committee. The parasite economy kept expanding and the transfer-seeking sector kept creating jobs.

Economic Education Bulletin (ISSN 0424-2769) (USPS 167-360) is published once a month at Great Barrington, Massachusetts, by American Institute for Economic Research, a scientific and educational organization with no stockholders, chartered under Chapter 180 of the General Laws of Massachusetts. Second class postage paid at Great Barrington, Massachusetts. Printed in the United States of America. Subscription: $25 per year. POSTMASTER: Send address changes to *Economic Education Bulletin*, American Institute for Economic Research, Great Barrington, Massachusetts 01230.

ECONOMIC EDUCATION BULLETIN

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH
Great Barrington, Massachusetts 01230

Second class postage paid at
Great Barrington, Massachusetts

RETURN POSTAGE GUARANTEED