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Reducing Federal Corruption

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Federal corruption is in the news with the Jack Abramoff affair, the conviction of a Republican congressman for bribery, and out-of-control special interest spending in the budget. Corruption refers to dishonest and unethical actions by officials to obtain private rewards at the public's expense.

There has been corruption in American government since the beginning, despite the efforts of the nation's Founders to curb it with devices such as the separation of powers.¹ This bulletin highlights some recent scandals and suggests ways to reduce corruption.

Corruption and Big Government

Corruption occurs when legislators and bureaucrats use their discretionary power over budgets, regulations, procurement, and taxation to reward themselves and private interests, while subverting the general welfare. Officials are motivated by bribes, campaign contributions, favorable investment opportunities, promises of jobs for themselves and family members, and other payoffs.

The federal government is vulnerable to corruption because each year it procures \$500 billion in goods and services, hands out \$450 billion in 770 state aid programs, issues 75,000 pages of regulations, oversees 66,498 pages of tax rules, and "earmarks" spending for about 15,000 special interest projects.² Manipulating these levers of big government is the goal of thousands of pressure groups, aided by Washington's 35,000 registered lobbyists. Here is a brief review of some recent scandals.

Members on the Take. Rep. Randy "Duke" Cunningham (R-CA) plead guilty to accepting \$2.4 million in bribes from defense contractors in exchange for earmarks and other favors. Rep. William Jefferson (D-LA) is being investigated for bribery related to a Nigerian business deal to which a former aide has plead guilty. Rep. James Traficant (D-OH) was convicted in 2002 for taking bribes and other crimes. There have been many other bribery scandals over the years, including the "Abscam" affair of 1980, which resulted in the convictions of seven members of Congress.

Porking for Profit. Rep. Alan Mollohan (D-WV) is being investigated for steering more than \$150 million in earmarks to five nonprofit groups in his district that he helped set up. The groups hired Mollohan's associates and aided him with campaign contributions and lucrative real estate deals. Like earmark champion Sen. Ted Stevens (R-AK), Mollohan has become suspiciously wealthy during his tenure in Congress.

Staffers Run Amok. Lobbyist Jack Abramoff and his clients paid off top staffers of former house majority leader Tom DeLay (R-TX) with lavish gifts, donations to DeLay-associated groups, and other favors. As a *Washington Post* story noted, there was a "far-reaching criminal enterprise operating out of DeLay's office."³ The Abramoff web of corruption encompassed many members of Congress and a top administration procurement official.

Betrayed by Bureaucrats. Pentagon procurement corruption has been common for decades—one scandal in the late 1980s led to more than 60 convictions. More recently, Pentagon officials and members of Congress tried to push through an inflated \$23 billion contract for Boeing tanker airplanes in return for various payoffs. The scandal ended with one official, Darlene Druyun, going to prison, and others being fired. Druyun manipulated numerous federal contracts and had arranged with Boeing to hire herself, her daughter, and her son-in-law.

Cutting Corruption

One way to reduce corruption is to remove discretionary power from government officials and impose added layers of regulations on them. But that would make government even more costly and ineffective. Thus, big government is trapped in a Catch-22—either it is buried in red tape to control corruption, or it is freed to be more entrepreneurial, but with much of that "entrepreneurship" serving private ends rather than the public good.

Businesses are also subject to scandal and fraud, but unlike the government sector, competitive private markets have built-in policing. The profit motive induces business managers to invest in productive activities, cut waste, and

reduce employee theft and bribe taking. The high value of company reputation encourages good behavior and spurs improved performance. When mismanagement occurs in the business sector, bad employees are often fired, firms can go out of business, and losses are borne privately.

By contrast, the costs of federal corruption and waste are imposed on taxpayers, agencies grow bigger despite failures, bureaucrats are almost never fired, and politicians have rigged the system to ensure high reelection rates.

Despite the efforts of watchdogs, such as the Government Accountability Office, federal corruption is ongoing and deep-seated. Corruption is one of many good reasons to downsize the federal government.⁴ The larger the government is, the more opportunities there are to twist budgets and regulations to serve private interests, and the harder it is for citizens and the media to keep tabs on the performance of officials. The following are some approaches to downsizing government and cutting corruption.

Federalism. The growth in budget earmarking has coincided with the growing intrusion of the federal government into state and local affairs. Most earmarks are for projects that are properly state, local, or private, such as roads, airports, museums, and parking lots. As earmarking has grown, more state, local, and private groups are hiring lobbyists to shake the money tree in Washington, creating a breeding ground for corruption. The solution is to revive federalism and get the federal government out of activities such as local infrastructure.

Privatization. Some of the most corruption-prone parts of the federal budget, such as transportation and housing, should be privatized. Transportation projects, for example, are plagued by large cost overruns, resulting in taxpayers bearing the costs for contractor failure and malfeasance. Privatization would end the ability of officials to shovel excess funding to contractors in return for payoffs. Note that the half-way reform of federal outsourcing might improve efficiency, but it does not solve the corruption problem, whereas full privatization without subsidy does.

Congressional Oversight. If it spent less time on state, local, and private activities, Congress would have more time to oversee federal agencies and deal with national issues such as security. If the government was downsized, more time and effort could be focused on routing out Pentagon waste and corruption, fixing failures in the intelligence agencies, and other priorities.

Deregulation and Open Trade. One cause of corruption is partial and selective bans on activities, such as gambling and foreign trade, that should be open and unrestricted. Selective bans foster intensive lobbying by

special interests both to defend restrictions and to loosen them by adding new loopholes. Jack Abramoff illustrated this problem with his lobbying efforts to change rules for online and Indian gambling in exchange for channeling cash to dozens of members of Congress and to groups associated with DeLay and other officials.

Corruption in foreign trade is illustrated by restrictions on the importation of sugar. Those controls have created an entrenched and wealthy sugar producers' lobby that dishes out millions of dollars of campaign contributions to protect the industry's monopoly profits at the expense of sugar-consuming businesses and average families.

Budget Transparency. Corruption can be partly suppressed by full disclosure regarding the recipients of federal largesse. Sens. Tom Coburn (R-OK) and Barack Obama (D-IL) have proposed creating a federal website that lists the names of the 30,000 groups that receive federal earmarks and other handouts, and the amounts received. Reformers are also proposing that all earmark request letters to appropriators be made public and that all earmarks in bills list their congressional sponsor.

Free Speech and Competitive Elections. In the name of "campaign finance reform" some politicians support further curbs on the financing of independent groups who speak out about policies and candidates. But rather than curb corruption, that would make it worse by squelching voices that criticize the corrupt practices of both parties. Americans should be aware that restrictions on free speech and other insider games, such as gerrymandering, have the effect of protecting corrupt members of Congress from fair and open electoral challenges.

Conclusion

Democrats are saying that Republicans preside over a "culture of corruption" in Washington. A Washington Post-ABC News poll in January found that 58 percent of Americans think that the Abramoff scandal is evidence of "widespread corruption in Washington." The Democrats and the public are right. The way to fix the problem is to downsize the budget, deregulate the economy, deregulate political speech, and foster competitive elections.

¹ Levels of corruption have apparently varied over time. See Edward Glaeser and Claudia Goldin, eds., *Corruption and Reform* (Chicago: University of Chicago Press, 2006).

² Data updated from Chris Edwards, *Downsizing the Federal Government* (Washington: Cato Institute, 2005), p. 11.

³ Jonathan Weisman and Thomas Edsall, "Ex-DeLay Aide Pleads Guilty in Lobby Case," *Washington Post*, April 1, 2006, p. A8.

⁴ For other good reasons, see Edwards.