

# The Political Forum

*A review of social and political trends and events  
impacting the world's financial markets*

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### Corporate America: Faustus or Faust?

Mark L. Melcher

Last week, I wrote about PACs and their insidious influence on the legislative process. This was not a novel theme. But it is one worth repeating every now and then, lest people forget that the system is indeed, to quote former California governor Jerry Brown, "bought and paid for."

This week I thought I would go into a little more depth on one of the most important aspects of government-by-PAC, namely the resultant, destructive relationship between America, Inc. and Washington. A closer parallel in real life to Marlowe's *Faustus* or Goethe's *Faust* would be difficult to find; for corporate America has, without doubt, sold its soul for the temporary servitude of the federal government.

As both Faustus and Faust found, the short-term rewards of a pact with Mephistopheles are significant. Among other things, depending upon the whim and the clout of their Congressional benefactors, corporate America receives specific tax breaks; protection from foreign competition; direct federal subsidies; government programs that vastly increase the size of certain markets; below market interest rates; exemptions from certain laws or regulations; rights to benefit commercially from government financed R&D; and purchase of government assets at fire-sale prices.

In addition, through their friends in Congress, the large corporations are able to undermine the competitive strength of their chief domestic rival, namely the nation's small businesses. What better way to bankrupt the small business community than to acquiesce in, and sometimes even promote, the passage of government programs with which only the very largest companies can contend?

Oh! And, as a result of big PAC contributions, the big shot corporate executives from the big shot corporate headquarters are able to come to town and rub elbows with big shot legislators, whose voting records often show they don't have a clue as to what American business is all about. And the big shot corporate executives are invited to serve on an endless array of big shot Washington advisory panels. Such fun. And the boys at the club are impressed too.

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Profits can be positively affected also, of course. Last week, I cited some specific examples of the enormous bottom-line leverage that PAC contributions can have.

I did not discuss, however, what corporate America gives up in exchange for this help, aside from the millions of dollars of PAC money each year. And therein lies this week's story.

For starters, just as was the case with Faustus and Faust, corporate America gives up its right to choose between good and evil on an on-going basis. It has made its choice. And the choice is overwhelmingly in favor of incumbents, almost without regard to their actions.

As I mentioned last week, in the 1990 elections, PAC contributions favored House incumbents over challengers by a record margin of 12.5-to-1, or \$87 million to \$7 million. During the period between 1980 and 1990, PAC contributions to House incumbents grew 250% from \$25 million to \$87 million, while PAC contributions to challengers actually decreased from \$7.3 million to \$7 million.

Year after year, the overwhelming bulk of corporate PAC money goes to incumbents who time and time again vote in favor of growing fiscal deficits, more government programs, and increased Washington interference in all aspects of American life. And year after year, these votes come at the expense of the long-term health of American business generally.

Financial services companies give money to legislators who neither understand nor care about the importance of America's capital markets. In many cases, these legislators are publicly linked to the worst crooks and charlatans in the business, the ones responsible for such spectacles as the savings and loan disaster. Yet the money rolls in.

The nation's large capital-intensive industrial firms give generously every year to legislators who promote the very destruction of their industry by ignoring the effect on capital costs of huge federal deficits, and who vote for endless tax law changes that penalize capital investment in favor of consumption.

Health care providers annually give millions upon millions of dollars to legislators who trumpet their disdain for the accomplishments of the American health care system, and who publicly proclaim their desire to turn the entire provider community into just another inefficient government program.

Several factors drive this destructive machine. The first is fear on the part of our corporate leaders that an effort to defeat a powerful legislator will fail and that the victorious legislator will then take retribution in the form of punitive legislation.

The second is a general fear of competition, and a resultant desire to gain some sort of edge through "friendly" connections in Washington.

The third relates to the fact that most of the large business PACs today are run out of Washington, by Washington insiders whose stock in trade is their personal connections with individual, powerful legislators regardless of how they vote.

What could be worse for a Washington insider, who runs a large corporate PAC, than the loss of a legislator with whom he or she has built up a "relationship?" The legislator's views, for the most part, matter not. What is important is "access." Hence the money flows regardless of the legislator's positions.

In fact, it is often the case that legislators most antagonistic to business receive the most money from corporate PACs. These legislators run the modern day equivalent of the old "protection" racket, only their message is not "pay me and you won't have any broken windows." It is, instead, "pay me and I won't break all your windows, or maybe I'll break more of your competitors' windows than yours."

The drive behind the growing unholy alliance between government and Washington is clear. The end is not. One certainty is a continued blurring of the distinction between business and government and a growth in expensive partnerships on grand federal schemes to address problems in the areas of health care, day care, poverty, education and drug abuse.

How far this trend will go and how much corporate America eventually will give up is anyone's guess. The question is, to continue my earlier analogy, will it be Faustus or Faust? In Marlow's *The Tragical History of Doctor Faustus*, the protagonist surrenders his soul to hell. The soul of Goethe's Faust, on the other hand, is in the end saved, borne away by angels. I don't see any angels in this story. But anything is possible. In the meantime, it is important to remember that both Faustus and Faust made bad deals, just as big business is making today.

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