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More active government means a greater risk of corruption

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Zoom is seeking to hire a UK “government relations manager”. Responsibilities for the role include “assisting in identifying legislative and other policy trends and developing strategies and policy language to further Zoom’s interests” and “developing a broad and deep network of relationships with policymakers, thought leaders, and other policy professionals that enhance Zoom’s reputation as a constructive and thoughtful player in the development of public policy”.

The company is a great pandemic success story, of course, self-reporting a massive 300m daily meeting participants on its platform globally. As economist Philip Booth has asked, isn’t it therefore depressing that the business feels the need for this government-focused role? Gone is the age when producing a great product that allows families and businesses to remain connected is enough. Now, political connections are perceived necessary to ensure ongoing success.

Don’t misunderstand me: Zoom is doing nothing wrong. Though the company is not within the purview of the Government’s new digital markets unit, a host of government policy issues, from encryption to online harms, affect them. Developing relationships with policymakers may be a wise, self-interested move. But their advertised role highlights a larger phenomenon at play: as government grows, so do the perceived returns to government “engagement”, lobbying, and, at its worst, rent-seeking.

The latter is particularly true when government activity ramps up quickly. Conservatives seem proud these days that they are offering a veritable fry up of “pork-barrel spending” - the American term denoting making localised public investments to enhance politicians’ re-election prospects. Analysis by Royal Holloway’s Chris Hanretty has found that spending from the £3.6bn Towns Fund - designed to improve transport and communications infrastructure - was more likely to be targeted at marginal Conservative-held seats, even after controlling for objective criteria about the area.

Quelle surprise, you might say. Politicians are self-interested and care about re-election. Yet the problem can be self-reinforcing. If the government is dishing out pork regularly, more voters and politicians will head to the barbecue.

A similar dynamic is true of businesses. When you have a picnic, you attract flies and ants; when the Government commits to an open chequebook, it attracts vested interests and lobbyists. The major projects Boris Johnson adores are particularly susceptible to this type of rent-seeking when budget constraints are relaxed.

It makes intuitive sense that when public money is scarce, the smaller sums available help keep rent-seeking in check. Recent research by economists Tommaso Giromoni and Gianmarco Daniele found that austerity in Italy led to a decline in corruption rates and corruption per euro spent, without affecting the quality of local service provision.

Tight budgets, the pair suggested, create the focus for governments to reduce the inefficient spending most prone to cronyism. In a time of belt-tightening, it is easier to observe when money is being awarded controversially.

It shouldn't surprise us then that we've seen more overt rent-seeking and corruption as the Government slathered money around in quick-fire PPE deals and relief during this pandemic. The Greensill Capital controversy, dodgy procurement contracts, and special pleading from industries highlight the incentives the growing pot of cash creates for highly concentrated interests to fight for claims on public resources that individual taxpayers rarely notice. Our Left-wing friends naively say "it's the Tories that are corrupt", as if getting good, benevolent Labour people elected deters this susceptibility. But incentives matter. When the Government is spending north of 50pc of GDP, or more than £1 trillion a year, opportunities to profit from politics grow.

In a market economy, money is made by providing the products, services, or advice that consumers want and need. With vast and growing public spending, the returns to lobbying or cronyism increase, strengthening incentives to extract resources from current or future taxpayers.

The recently departed shadow chancellor Annelise Dodds appeared to recognise the phenomenon. In her Mais lecture earlier this year, she hinted that government decisions on infrastructure and procurement often seemed determined more by short-term political or crony capitalist concerns than sound economic judgment these days. The emergency needs of a pandemic brought unique circumstances, she acknowledged, but there was more than a whiff of foul play.

The problem is neither she nor her successor, Rachel Reeves, appear willing to confront a major source of the discontents: public largesse. Indeed, last year Reeves herself lobbied publicly on behalf of companies seeking personal protective equipment contracts, several of whom seemed ill-equipped for such activity.

Obviously, any relationship between government size and business rent-seeking is not an immutable law. Nobody pretends the UK is more prone to corruption than, say, "small government" Somalia. Institutions matter too. Hanretty points out, for example, that in 1995 the UK Committee on Standards in Public Life set out the Nolan principles governing behaviour in public office, including a requirement to "act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias".

But when money is shoved out of the door widely and quickly, and the state regulates almost all aspects of our lives, any given decision obtains much less careful public scrutiny. Government largesse doesn't just encourage rent-seeking by creating the incentives for it, then, it also relaxes the constraints against it.

With the Conservatives committed to a host of new regional spending, green industrial policy, and novel regulation, we should expect many more government relations managers in the business world. Most will be harmless enough. But activist government risks the more economically destructive rent seeking, regulatory capture, and corruption we've noted.

The best way to avoid this is to limit the state's reach and size. Sadly, there are few current advocates of retrenchment in Westminster.

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