

Death of a democracy

MarketWatch

By Brett Arends

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Will anyone even bother voting in future elections? Will they get involved in political causes? Will they spend one dime of their savings supporting a political candidate or a campaign?

When you look at what is happening with money and politics in 2010, these are not idle questions.

Thanks to changes in the law, company honchos can now buy an election as easily as they order office furniture. The president has tried to make an issue of this in the past 10 days, but I suspect his commentary will have little effect.

In case you missed it, recent Supreme Court rulings mean that corporations can now effectively spend freely on political campaigns, including during elections. Loopholes in the tax code, particularly pertaining to 501(c)4 nonprofits, mean they can do so secretly through anonymous front groups.

It doesn't matter whether you are a Republican or a Democrat, whether you hate the president or like him.

Under this system, the game is over. Our democracy is dead. We just don't know it yet.

Don't believe me? Look at the numbers.

Up until now, the gold standard for campaign fund-raising was set by Barack Obama in 2008. With brilliant creativity and energy, his team harnessed the Internet, and combined it with on-the-ground logistics to tap sources of funds from big cities and little towns all across the country. In the end, 320,000 individual donors sent in money, a remarkable achievement. About 200,000 of them gave less than \$1,000. The total raised by the campaign was \$750 million.

At the time it was considered the wave of the future — the utopian marriage of grassroots democracy and technology. How naïve that looks. It's already a period piece.

Compared with the financial firepower in the hands of major corporations, that amount of money is chicken feed. Many CEOs can cut checks for millions, even tens of millions, without blinking. They can match all that effort without breaking a sweat.

According to data from FactSet, there are around 350 companies on the U.S. stock market that have more than \$750 million on hand just in cash and equivalents, such as short-term Treasury bills.

Exxon Mobil Corp. has \$13.3 billion in ready money. That's 18 times as much as Obama raised in all of 2007-08. Johnson & Johnson has \$12.7 billion. UnitedHealth Group Inc. has about \$10 billion. The list goes on.

In other words, under the new law, the chief executive of any of these companies could match the most successful grassroots, populist fund-raising campaign in history with a single phone call.

That understates the issue; only a small percentage of a company's true wealth is tied up in ready cash. Exxon Mobil, the biggest company, is valued at more than \$330 billion. So \$750 million is just one quarter of 1% of its value. A quarter of one percent. Who notices a 0.25% movement in a stock price? Annual cash flow runs to tens of billions of dollars a year.

No one company will have to pay the full tab to buy each election for corporate America anyway: The bill will be shared. How many companies could chip in \$20 million or \$50 million without even noticing? You think Goldman Sachs Group Inc. or Citigroup Inc. or Bank of America Corp. can't find that cash around to buy off reform?

That's plutocracy, pure and simple.

Shareholders will have no say. "Political-speech decisions can be made without input from shareholders, a role for independent directors or detailed disclosure," law professors Lucian Bebchuk of Harvard and Robert Jackson of Columbia will report in a forthcoming paper on the issue. As Bebchuk told me: "Companies certainly are not required, and do not disclose, contributions to intermediaries that engage in political spending."

Cornelius Hurley, director of Boston University's Morin Center for Banking and Financial Law, said companies can bury these types of spending in the budget for marketing, community involvement, or lobbying. Also, under the rules, the bigger the company, the more it can spend and hide.

"It's incredibly rare that corporate contributions rise to the size that would be material, and only material facts need to be disclosed," says Stephen Bainbridge, law professor at the University of California in Los Angeles. "You'd have to have contributions on the order of 10% of assets to be deemed material."

Corporations are only just waking up to the good news. In the last few months, money has started pouring into outside groups. According to the Center for Responsive Politics, a remarkable \$180 million has gone into independent political organizations. Most of that, about three-quarters, has gone into organizations on the right.

It just so happens those organizations tend to be favored by top business executives. But if you're a conservative and you're cheering, just wait until your interests clash with those of company boardrooms. You think you're going to win?

What sort of clout does this money buy?

According to data tracked by Media Matters for America, the 10 biggest independent right-wing groups aired 60,052 political ads nationwide between Aug. 1 and Oct. 11. At 30 seconds a commercial, that's about 500 hours of commercials.

The Chamber of Commerce spent \$10 million running 4,700 adverts during a single week.

It's easy to say, "Oh, we're too smart to fall for that marketing stuff. You can't just buy an election. Look at Jerry Brown!" But watch out for the law of small numbers. There will always be the occasional exception. And Brown, who comes from another era, built up a formidable political base before we became a plutocracy.

This election is just the beginning. Expect the amounts spent in the future to be vastly greater. Political ads are merely the tip of the iceberg. The real action will come from hundreds of millions spent in areas of propaganda that you'll never see — from Astroturfing and smears to slush funds. We're talking unlimited money. Expect personal scandals to erupt, as if by magic, around any reform politician with half a chance.

Remember, an election isn't like shopping. In politics, if the majority eats Ring Dings, we're all eating Ring Dings.

Various experts will try to tell you the new system of unlimited, secret corporate donations can't survive. "I don't believe secretly funding our elections can be sustained," Fred Wertheimer, head of reform group Democracy 21, told the New York Times. "It won't hold up. The public won't stand for it. This is guaranteed corruption."

I'm glad he's so optimistic. But who is going to stop it? There are no gatekeepers left with any power. How can you fix a broken political system with a broken political system? How can someone in manacles strike off his own chains?