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In the public interest

How a lobbying fee could end the excessive influence enjoyed by wealthy interest groups

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Lobbying is part and parcel of democracy. But as with freedom of speech more generally, it's only democratic if the same rules apply to everyone. If the interests of certain industries get a privileged hearing, democracy is undermined. That's what's happening under current rules, which are biased in favour of wealthy interest groups. According to calculations by the Corporate Europe Observatory (CEO), the finance sector alone spends over 30 times as much on lobbying in the EU as NGOs, consumer associations and trade unions put together.

The results of this influence can be seen everywhere. The finance lobby continues to dominate legislation despite the global financial crisis triggered in 2008 by the collapse of the US investment bank Lehman Brothers. Take bank equity requirements, for example: one of the main causes of the crisis was banks' very low equity ratios, which left the banks unable to cover their losses. Some argue that the minimum equity ratio should be raised so that at least 20 per cent of banks' activities must be equity-financed.

However, the EU has set a minimum of just 3 per cent. This low threshold is attributable to lobbying by the finance sector, which is opposed to more stringent equity requirements. That's because bonuses are linked to return on equity, which (for a given amount of profit) will come out higher the more that banks rely on debt rather than equity financing.

Matters are similar with the financial transaction tax, the much-discussed plan to tax securities and foreign exchange trading. Just four days of the annual global foreign exchange trade would be enough to finance real global trade. The rest serves no end other than to generate lucrative returns for the finance sector. By campaigning against the financial transaction tax and spreading a whole host of different myths, the finance lobby has set back the introduction of the tax by several years. Moreover,

exemptions are planned that will have the effect of merely redirecting unproductive transactions, rather than decelerating their pace.

Private lobbying finances public lobbying

Politicians are particularly susceptible to the demands of the powerful finance lobby. This has to do with the finance sector's considerable economic clout, but also with the (sometimes only seeming) complexity of the technical details. Meanwhile, financial regulators are underfunded, and research institutions' often have an affirmative bias because they have to rely on private funding and commissions in order to make ends meet. In academia as in journalism, time and quality have become a luxury.

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NGOs – which can do valuable campaigning work – are likewise often strapped for cash. A lobbying fee, however, would be an effective way to ensure stronger representation on behalf of the public interest: the more companies spend on lobbying in their own narrow financial interests, the higher the contribution they would have to pay towards lobbying for the common good. To ensure that our shared interests are promoted, we need much better-funded financial regulators, a research sector that works for the common good, high-quality independent journalism and strong civil society organisations.

The lobbying fee should be collected and administered by a public body in order to guarantee its independence. Although the fee would apply across different sectors, it would have a particular impact on the overpowered finance lobby. It could have an exemption threshold and a progressive structure, with lower contributions for SMEs and bigger ones for large corporations. Since taxation has traditionally been a national policy matter, it is down to individual countries to take the lead on this issue. By introducing a lobbying fee, Germany should play a pioneering role both in the EU and internationally.

A strengthening of democracy

The idea of the finance sector funding financial regulators is nothing new: Germany's Federal Financial Supervisory Authority (BaFin) is fully financed using this model. The economist Joseph Stiglitz also

recommends that salaries in the financial regulation sector should be brought in line with those in the finance sector in order to prevent 'brain drain'; this could be funded by a fee or contribution. Having qualified staff with relevant expertise who work without excessive time pressure is essential in order to effectively counteract one-sided lobbying. Furthermore, audit firms and ratings agencies should be organised on a public-ownership or not-for-profit basis to ensure their independence.

Companies' right to operate freely and without interference cannot be used to justify lobbying that harms the economy or runs counter to the common good. This should take priority over the interests of individual companies and industries. To make this legal principle a reality, legislators need to take action to rebalance the skewed distribution of resources and influence. To compensate for the lobbying fee, companies could reduce their donations to political parties. They could also minimise the contributions they have to pay by scaling back their lobbying activities.

People don't want politics to be controlled by big corporations with ever-growing influence. That's why so many took to the streets for mass protests against planned trade deals such as CETA and TTIP. Political parties, especially major ones like the German Social Democrats (SPD), could do a great service for democracy by taking serious steps to address this problem.



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