

# Parasite Economy Latches onto New Host



**P**erhaps the biggest success story of the American economy in the past decade is the Microsoft Corp., which made a profit of \$2.2 billion in fiscal 1996. Founder Bill Gates and many other millionaires in Redmond, Washington, got rich the only way you can in a free market: by producing something other people wanted. A lot of brilliant people worked long hours producing computer software that millions of people chose to buy, in the midst of a highly competitive market that offered lots of other options.

But in our modern politicized economy—which Jonathan Rauch called the “parasite economy” in his book *Demosclerosis*—no good deed goes unpunished for long. For many years all those brilliant minds at Microsoft and all the money they earned were devoted to making products that would help people. Then the federal government noticed that Microsoft was just too good and was helping its customers just too much. It launched a Federal Trade Commission investigation, later compounded by a Justice Department investigation, of whether Microsoft “has monopolized or has attempted to monopolize” markets for personal computer software and peripherals. Microsoft gave in and agreed to restrictions on its contracting and pricing policies in order to avoid long and costly litigation. That wasn’t enough for the government—or for some of Microsoft’s competitors—who went on to launch more antitrust investigations.

The issue today isn’t whether Microsoft is or was in fact a monopolist, though the facts shed a lot of doubt on that claim.

What concerns me here is how the government lured Microsoft into the political sector of the economy. For more than a decade the company went about its business, developing software, selling it to customers, and innocently making money. Then in 1995, after repeated assaults by the Justice Department’s Antitrust Division, not to mention its growing encounters with immigration, tax, trade, and other regulations, Microsoft broke down and started playing the Washington game—entirely defensively, it appears.

As early as 1990 it had employed the Washington office of Preston Gates Ellis & Rouvelas Meeds, a Seattle law firm that includes Bill Gates’s father, as its chief outside counsel in Washington. In 1995 the company opened its own Washington office, headed by Jack Krumholtz, a Washington lawyer. It also hired the lobbying firm Downey, Chandler, headed by two former congressmen, and the public relations firm Bozell Sawyer Miller Group. It worked on policy issues through several trade associations. (It also, I might note, for the first time made contributions to the Cato Institute,

the Center for Democracy and Technology, and other think tanks and public interest groups.)

There’s no evidence that Microsoft has done anything more than try to protect itself from depredation by the federal government. The tragedy is that the most important factor in America’s economic future—in raising everyone’s standard of living—is not land, or money, or computers; it’s human talent. And some portion of the human talent at one of America’s most dynamic companies is now being diverted from productive activity to protecting the company from political predation, motivated by envy, lust for power, or simply the desire to win in the political arena what you can’t win in the economic arena. The parasite economy has sucked another productive enterprise into its destructive maw. And while Microsoft’s lobbying and public affairs efforts are entirely defensive at present, will Microsoft someday perhaps be tempted to use its newfound political assets to gain something in Washington that it can’t win in the marketplace?

**“The human talent at one of America’s most dynamic companies is now being diverted from productive activity to protecting the company from political predation.”**

The slowdown of the American economy over the past few decades can be blamed in large measure on just this process—the expansion of the parasite economy into the productive economy. As Rauch points out, the number of corporations with Washington offices increased 10-fold between 1961 and 1982. *Congressional Quarterly* reports show that the number of people lobbying in Washington at least doubled and may have tripled between the mid-1970s and the mid-1980s. The number of lawyers per million Americans stayed the same from 1870 to 1970, then more than doubled by 1990.

Of course, all this investment in Washington reflected Willie Sutton’s observation about robbing banks: “That’s where the money is.” The federal budget has grown inexorably over the past 60 years or so. Even if you don’t want to get a piece of that budget, the long arm of the government reaches out to affect you. The number of pages in the *Federal Register*, where new regulations are printed, doubled between 1957 and 1967, tripled between 1970 and 1975, and remains at some 60,000 a year. No wonder so many corporations have opened Washington offices.

Microsoft’s new presence in Washington is entirely understandable, but it is a tragic symbol of the diversion of America’s productive resources into the unproductive world of political predation and the struggle to resist it.

—David Boaz