

THE COSTS OF CORRUPTION TO THE AMERICAN ECONOMY



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Over the past six months, the Office of Government Ethics has received 39,105 inquiries—up more than *5,000 percent* over the comparable period leading up to President Obama’s 2012 election and first months in office.¹ Corruption is not a concept we are used to discussing in the context of the contemporary American economy. Many of the most informative studies on corruption are from developing countries, which shows just how much President Trump has begun to undermine the norms and institutions that enable not only our democracy to function, but also our economy.

Corruption does not have to take the form of a secretly exchanged cash-filled briefcase, but President Trump’s financial conflicts of interest are a clear cause for concern: by flaunting the laws and conventions of good governance that made the United States a cornerstone of the global economy, President Trump is likely doing economic harm. He appears to be shaping policy for his own benefit and using his position as President to boost his own business revenue. These actions will enrich President Trump and his family at the expense of the economic growth that provides economic security for American families.

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HOW CORRUPTION WORKS IN TRUMP’S AMERICA

President Trump’s network of business interests make it easy for businesses and foreign powers to engage in a range of transactional relationships with the President. As the chief White House ethics lawyer to President George W. Bush said, “[t]his is the new version of pay-to-play, ‘Get in there and do business with the Trump Organization.’”²

Connections to politicians have been shown to increase private-sector earnings. In Italy, Prime Minister Silvio Berlusconi’s private television network, Mediaset, increased its profits by one billion euros during his tenure thanks to advertising revenue from companies eager to gain favor.³ In Russia, a political connection to a winning politician can increase a firm’s revenue by about 60 percent and profit margins by 15 percent throughout the politician’s time in office.⁴ With the administration’s unprecedented lack of transparency, outsiders can only speculate on what the Trump Organization may be gaining, what President Trump may be giving up in such an exchange, and how that aligns with the interests of people in the United States President Trump represents. As President Trump has refused to put his holdings into a blind trust or release his tax returns, only he will know how possible regulatory or legislative action could benefit his businesses.⁵ Below are just some examples of how corruption may be playing out in the Trump administration.

Shaping policy for his own benefit

In February, the President issued an Executive Order that began the process of rolling back an Environmental Protection Agency rule that defines protected waters under the Clean Water Act, protecting drinking water supplies.⁶ This Obama-era rule was one that the golf industry virtually universally opposed, raising questions as to whether this move was less about government overreach and more about protecting the dozen of Trump-owned golf courses.⁷ Such a policy decision may not reflect the best interests of Americans, instead benefitting the President's personal business holdings and enriching himself at the expense of safe drinking water. President Trump has also advocated for tax policy that would eliminate the estate tax, cut capital gains taxes, and preserve loopholes in the tax code from which he benefits from now. The size of President Trump's holdings means that he and his children could benefit from tax changes to an unprecedented extent for a politician, by more than one billion dollars.⁸

Using his position as President to boost business revenues

Among President Trump's resorts are Mar-a-Lago and the Trump National Golf Club in Bedminster, New Jersey, the so-called "Winter" and "Summer" White Houses. As of the publication of this report, President Trump has spent 25 days at Mar-a-Lago alone, and 36 days in total visiting at least one Trump-owned property.⁹ The President's personal business interests directly benefit from his trips to Mar-a-Lago and Bedminster. His mere presence is enough to bolster enrollments: the lure of close proximity to the President, who has made it clear that he intends on spending a substantial amount of time on the properties with important international leaders, creates a pay-to-play environment where those who can afford the hundreds of thousands of dollars in initiation fees and annual dues have close to unrestricted access to the President.¹⁰ In fact, there are reports of Mar-a-Lago members discussing policy with the President.¹¹ Audio recordings even show that then President-Elect Trump solicited advice from Bedminster members on cabinet position nominees.¹²

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By playing up his properties and spending substantial amounts of time there, Trump monetizes his position as the President of the United States in order to boost revenues for his country clubs. In his pre-election financial disclosure statement, President Trump reported earning nearly \$30 million from the Mar-a-Lago estate.¹³ With recently doubled initiation fees, and enrollment likely to climb, this figure stands to grow.

Trump wins trademark approvals from China as he honors "One China" policy

The President's ten-year battle for the legal rights to his brand name in mainland China has taken a positive turn since he announced his candidacy in 2015. Until that point, the battle had been

mostly characterized by a series of rejections on continued trademark applications.¹⁴ However, after his election, the People’s Republic of China has been more accommodating to the Trump brand. Less than a week after Trump won election, the Chinese trademark office granted a preliminary approval for Trump and his organization to register the “TRUMP” trademark for construction services.¹⁵

Moreover, there is speculation that a further spate of trademark approvals that occurred in late February and early March was the result of the President’s February 10th agreement to honor the “One China” policy, which holds that there is only one Chinese government and that Taiwan does not operate as an independent government.¹⁶ Then again, on April 6th, Chinese officials approved new provisional trademark rights for Ivanka Trump.¹⁷ The announcement came while Ivanka was meeting with President Xi Jinping, only ten months after submitting the application—much shorter than the typical 18-month process.¹⁸

HOW THE FINANCIAL RETURNS TO PRESIDENTIAL POWER ADD UP

It is difficult to put a number on how much the President and his family benefit from these conflicts of interest. President Trump has taken several actions that further cloak the ability to assess potential corruption issues that may or may not plague the Trump White House. These include ending the release of White House visitor logs and refusing to make public the President’s tax returns.¹⁹

Nevertheless the return to these conflicts of interest are likely huge: Melania Trump’s lawyer even said that the presidency was a “unique, once-in-a-lifetime opportunity” to make money.²⁰ Academic researchers found that in Italy having a politician in the family increases private sector earnings by 3.5 percent annually.²¹ This study includes relationships with politicians at all levels of government—municipal, sub-national, and national government. None of the subjects in the study held nearly the sway over far-reaching policy decisions that President Trump wields, suggesting that this would likely be an underestimate of the returns to President Trump’s power.

HOW CORRUPTION HURTS AMERICA ECONOMICALLY

Unfair advantages for firms and executives with political connections at the expense of more productive and innovative firms stifles innovation and constrains the American economy. Indeed, some business owners are already claiming that President Trump’s ongoing businesses connections and leverage of the Office of the President are creating an unfair competitive advantage that hurts their business.²² The owner of a restaurant competing with that of the President said, “We feel that the president of the United States, owning a hotel, owning restaurants, promoting those restaurants, is unfair and to the detriment of other businesses in the city.”²³ When the President cashes in on his position, and creates an environment in which others do the same, he threatens the efficiency and productivity of the American economy.

Slower Economic Growth

Researchers consistently find that the costs of increased levels of corruption are large.²⁴ Based on estimates in a study from the 1990s, if the United States government had been as corrupt as Italy's, per capita GDP would have grown at 2.1 percentage points less every year.²⁵ This has huge implications for Americans: if GDP per capita had grown 2.1 percentage points less in 2016, output would have fallen by \$1,170 *per person*.²⁶ Higher corruption is associated with higher inequality, which is associated with lower growth.²⁷ These aggregate effects on the economy operate through a diverse array of channels, discussed below, ultimately hurting the country's economic potential and constrain the productivity growth that translates into higher standards of living for all Americans.

Less competition, productivity, and innovation

Surreptitiously directing business in one way or another skews fair competition in the marketplace, enticing companies to spend money on cultivating political patronage rather than on innovating. Political connections can transfer profits from more productive to less productive firms, decreasing overall productivity.²⁸ Indeed, if seeking favors becomes more profitable than coming up with the next big innovation, then we can expect to see fewer innovations as businesses concentrate on currying favor instead of innovating.²⁹ Corruption also can hurt competition, which is a driver of productivity growth and innovation.³⁰ Americans would see fewer positive innovations and lower productivity, resulting in real effects that reverberate through American households.

Costlier and less effective government

More corrupt governments are also more expensive for their citizens. Firms with political connections are more likely to attempt to evade taxes, as they are less likely to face an audit than non-politically connected firms.³¹ Municipal bonds can become more expensive in more corrupt governments, increasing the cost of governing.³² Decreased tax revenue and increased costs of borrowing are even more problematic because more corruption leads to increases in public debt as the government increases its spending.³³

Corruption can also decrease the effectiveness of regulation by allowing businesses to avoid compliance.³⁴ Corrupt practices undermine government regulations and anti-trust practices that are put into place to correct market failures.³⁵ For example, firms with more political connections may be more likely to violate regulations and shirk responsibility for behaviors that might otherwise invite civil or criminal penalties. Moreover, corruption leads connected firms to leverage their political relationships to secure laws and regulations that help amass and protect their market power at the expense of other businesses, workers, and consumers.

Lower private investment

Private investment—when companies spend money to expand and enhance their equipment and workforce, or to research or develop new innovations—is an important driver of productivity growth. Corruption discourages private investment partly by increasing the costs of investment.³⁶ In a world where the most productive firms are not the most profitable, the traditional investment incentive mechanisms fail to work.

CONCLUSION

The effects of corruption are not just the benefits to President Trump and his associates; it will likely also hurt economic outcomes for all Americans, depressing economic output by over \$1,000 per person. For the sake of our institutions and our economy, the American people and policymakers must be vigilant against the potential for President Trump to enrich himself and his family at the expense of the average American.

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- ³ DellaVigna, Stefano, Ruben Durante, Brian Knight, and Eliana La Ferrara. 2016. "Market-based lobbying: Evidence from advertising spending in Italy." *American Economic Journal: Applied Economics* 8(1): 224-256.
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- ⁸ The White House. "[2017 Tax Reform for Economic Growth and American Jobs.](#)"; Ehrenfreund, Max. 2017. "[Trump's tax proposal: What it means for the rich, for the world and for you.](#)" *The Washington Post*, April 26; And Carlsen, Audrey, Jesse Drucker, Stuart A. Thompson, and Nadja Popovich. 2017. "[Trump Could Save Tens of Millions of Dollars in One Year Under His Proposed Tax Plan.](#)" *The New York Times*, April 28.
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- ¹⁰ Frank, Robert. 2017. "[Mar-a-Lago membership fee doubles to \\$200,000.](#)" *CNBC*, January 25; Venook, Jeremy. 2017. "[Donald Trump's Thrifty Vacation to New Jersey.](#)" *The Atlantic*, May 6. See, for example, Webb, Kristina and Alexandra Clough. 2017. "[UPDATE: Trump mingles with Mar-a-Lago guests outside charity ball.](#)" *Palm Beach Post*, March 4.
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- ¹² Samueksohn, Darren and Annie Karni. 2017. "[Leaked Trump tape: 'You are the special people'.](#)" *Politico*, February 18.
- ¹³ Harwell, Drew. 2017. "[At Trump's Mar-a-Lago, the price for joining the 'winter White House' has doubled.](#)" *The Washington Post*, January 25.
- ¹⁴ Huang, Zheping. 2017. "[A curious timeline of trademarks granted to Donald Trump by an increasingly helpful China.](#)" *Quartz*, March 13.
- ¹⁵ *Ibid.*
- ¹⁶ On February 27 and March 6, the Chinese Trademark office granted the Trump Organization a total of 35 preliminary trademark approvals. This does not include the February 14 approval that went into effect *automatically* after a three-month waiting period. See *ibid* for more details.
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- ¹⁸ Northam, Jackie. 2017. "[China Defends Trademark Grants For Ivanka Trump Products.](#)" *National Public Radio*, April 19.
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- ²⁰ Harder Mirell & Abrams LLP. 2017. [Complaint and Demand for Jury Trial for Melania Trump V. Mail Media, Inc.](#)
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- ²⁴ See also papers on corruption in developing countries: one found that a 10 percent increase in corruption reduced economic growth by about 7.2 percent (Mo, Pak Hung. 2001. "Corruption and Economic Growth." *Journal*

of *Comparative Economics* 29(1):66-79.). Another that shows that costs of distortions in the financial market at corruption levels in Pakistan cost 0.3 to 1.9 percent of GDP per year (Khwaja, Asim Ijaz and Atif Mian. 2005. "Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market." *The Quarterly Journal of Economics* 120(4): 1371-1411).

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²⁶ JEC Democratic Staff calculations based on estimates from Mauro 1995. The estimated effect on per capita GDP growth from above endnote is applied to 2016 per capita GDP growth, adjusted to 2016 dollars using the implicit GDP deflator. These calculations use the estimate for bureaucratic efficiency from Table VII, column 5. Other models have different point estimations, but model 5 is in the central range of estimates. The bureaucratic efficiency index is used due to the author's statement that "I consider the bureaucratic efficiency index to be a more precise measure of corruption than the corruption index on its own."

²⁷ Dabla-Norris, Era, Kalpana Kochhar, Nujin Suphaphiphat, Frantisek Ricka, and Evridiki Tsounta. 2015. "[Causes and Consequences of Income Inequality: A Global Perspective](#)." *International Monetary Fund, IMF Staff Discussion Note*. June; and Li, Hongyi, Lixin Colin Xu, Heng-fu Zou. 2000. "Corruption, Income Distribution, and Growth." *Economics and Politics* 12(2): 155-181.

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²⁹ Murphy, Kevin M., Andrei Shleifer, and Robert W. Vishny. 1993. "Why Is Rent-Seeking So Costly to Growth?" *The American Economic Review* 83(2): 409-14.

³⁰ OECD. 2013. "[Issues Paper on Corruption and Economic Growth](#)." *Organisation for Economic Co-operation and Development*. September 2.

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³⁴ Jiang, Ting, and Huihua Nie. 2014. "The stained China miracle: Corruption, regulation, and firm performance." *Economics Letters* 123(3): 366-369.

³⁵ Dabla-Norris, Era, Kalpana Kochhar, Nujin Suphaphiphat, Frantisek Ricka, and Evridiki Tsounta. 2015. "[Causes and Consequences of Income Inequality: A Global Perspective](#)." *International Monetary Fund, IMF Staff Discussion Note*. June

³⁶ Dabla-Norris, Era, Kalpana Kochhar, Nujin Suphaphiphat, Frantisek Ricka, and Evridiki Tsounta. 2015. "[Causes and Consequences of Income Inequality: A Global Perspective](#)." *International Monetary Fund, IMF Staff Discussion Note*. June; Ndikumana, Léonce. 2006. "[Corruption and Pro-Poor Growth Outcomes: Evidence and Lessons for African Countries](#)." *Political Economy Research Institute Working Paper* no. 120; and Mauro, Paolo. 1995. "Corruption and growth." *The Quarterly Journal of Economics* 110(3): 681-712.