

NATIONAL REVIEW

The Cronyist Threat

Conservatives should act to restore confidence in free markets

By Yuval Levin — November 7, 2016, Issue

The past year has highlighted many problems with the ways conservatives tend to approach the broader public — including Republican voters. A lot of these problems come down to two kinds of failure: On one hand are failures to take seriously some key public concerns, and on the other are failures to articulate some key conservative priorities. The combination has meant that conservatives have sold themselves short as sources of solutions to what ails America.

This twofold failure is evident in many arenas, but the Right's approach to the question of "cronyism" may offer an especially instructive example. Voters of all political stripes seem increasingly to think that the economy is somehow rigged against them, and to the benefit of some wealthy and powerful interests. This isn't always true, of course, and it can easily become a convenient excuse for demanding special favors or protections. Indeed, resentment against the wealthy and powerful is frequently channeled by the Left to empower greater government intervention — ironically creating new opportunities for the wealthy and powerful to lobby and to curry favor.

But the Left's tendency to misdirect concerns about favoritism and cronyism is not an excuse for the Right to pretend that such concerns are baseless. It is important to take those concerns seriously, both because they are in many cases valid and because cronyism badly undermines the kind of market economics that conservatives think is essential to America's wealth and freedom. The failure to take complaints about cronyism seriously is in this sense both a political and an intellectual failure for conservatives — and the two reinforce each other.

Everybody knows that conservatives in America are champions of the market economy as an engine of prosperity. But too many Americans, including too many conservatives, seem to believe that defending the market economy means serving the interests of business. That is certainly how our government has too often approached its role as steward of the economy — advancing the priorities of established, well-connected interests, sometimes at the expense of

the needs of individuals, families, communities, and the nation as a whole, and claiming to do so in the name of economic growth and freedom.

But a commitment to the goals and principles of the market economy is by no means the same thing as a commitment to the interests of the businesses that compete in that economy. On the contrary, markets require a government dedicated to open competition for the benefit of consumers and citizens — which very often means subjecting powerful incumbents to competitive pressures they would rather avoid.

Such fair and open competition is precisely what makes markets engines of prosperity and innovation, and what makes the free-enterprise system well suited to helping a free society address some of its biggest problems. Providing business interests (or labor interests, or any other established, well-connected group) with special benefits or shielding established market actors from competition is therefore anathema to the ethic of capitalism and of democracy. That our government now frequently engages in precisely such preferential treatment for the well connected is a grave danger to democratic capitalism in America. And that the public identifies such cronyism with capitalism itself is a failure of the friends of the market system. It is as such a failure of conservatism, and it threatens all that conservatives hope to achieve.

It is so grave a threat because cronyism runs much deeper than we generally think. Some examples are obvious and much discussed: Direct subsidies to agribusiness and loan guarantees for some of our largest exporters use public resources to protect the standing of established market giants. The staggering array of tax carve-outs and targeted regulations benefits businesses with the resources to lobby and to ensure compliance, and comes at the expense of new competitors. The corporatism that has defined the Obama administration's domestic policy — protecting large, powerful companies from competition in exchange for their willingness to serve as agents of government power in finance, health care, and elsewhere — has advanced the progressive agenda of consolidation at the expense of dynamism and prosperity.

But cronyism reaches much farther than these relatively obvious examples, to the core of the problems of modern American government. Self-dealing is, for instance, at the heart of our primary- and secondary-education crisis, as schools and districts are run in the interests of administrators and tenured teachers rather than students. It is a driving force behind our higher-education dilemmas, as the already accredited run the accreditation system and keep out new competitors and new models of schooling and financing. It undermines upward mobility, as established players in one industry after another use licensing and certification requirements to keep out competitors. It distorts our immigration debate, as the national interest and the interests of powerful employers are willfully confounded. It is a primary barrier to market-oriented health-care reform.

For all these reasons, cronyism also leaves the public mistrustful of conservative claims to offer solutions on these various fronts, and of conservative assertions that the competitive provision of public services or benefits could help the poor, elderly, and vulnerable better than today's welfare and entitlement systems. Cronyism thus lies at the heart of our liberal welfare state and is a massive overarching problem for conservative reformers.

Indeed, corporatism, or the consolidation of social power in the hands of large, centralized public and private institutions, is a core principle of modern progressivism, such that picking winners and losers has long been understood by many on the left to be a necessary purpose of public policy. "In economic warfare," wrote the progressive theorist Herbert Croly in 1909, "the fighting can never be fair for long, and it is the business of the state to see that its own friends are victorious."

Cronyist progressivism is thus coherently wrong. But cronyist conservatism is incoherent and inexcusable. And leaving the public with a choice between only these two alternatives, as our politics too often does, is a failure of our political system that is again attributable to a failure of the defenders of the market economy and of American democratic capitalism.

Indeed, the very idea of the market economy arose in large part to combat cronyist economics. Adam Smith offered his case for markets in the late 18th century in opposition to mercantilism — the then-prevailing economic system, which equated the interests of a nation with those of its largest manufacturers and trading companies. The economy should instead be geared to the benefit of consumers, Smith argued. Large companies and powerful merchants should be neither preferred nor oppressed; they should be subject to the rules of open competition without exception.

Our constitutional system, too, was intended in part to help combat this scourge by creating a stable and predictable legal regime. Cronyism, by bending rules for special interests, undermines the predictability and fairness essential to republican government. A key effect of the resulting instability, as James Madison put it in Federalist 62, is

the unreasonable advantage it gives to the sagacious, the enterprising, and the moneyed few over the industrious and uniformed mass of the people. Every new regulation concerning commerce or revenue, or in any way affecting the value of the different species of property, presents a new harvest to those who watch the change, and can trace its consequences; a harvest, reared not by themselves, but by the toils and cares of the great body of their fellow-citizens. This is a state of things in which it may be said with some truth that laws are made for the few, not for the many.

Both the nature of the public problems we now confront and the character of the solutions that conservatives are inclined to propose therefore demand that the rejection of cronyism and the promotion of fair and equal competition be central planks of any conservative economic agenda.

What would this mean in practice? First and most obviously, it would mean combating particular instances of abject cronyism in public policy. Such instances are legion, and addressing them would help conservatives make the case for market economics as a way to advance not only prosperity but also fairness in our economy.

The federal government now uses a number of programs to subsidize American companies that export their products, for instance. Most notable in recent years (though far from alone) has been the Export-Import Bank. It provides taxpayer-backed loan guarantees, among other forms of subsidy, to lower the financing costs of foreign consumers who buy high-cost American-manufactured goods (such as aircraft and construction equipment). These subsidies benefit foreign buyers and domestic manufacturers at the expense of American consumers and taxpayers. They often simply reduce costs for purchases that would have been made anyway, while putting the domestic competitors of foreign buyers at a disadvantage (such that, for instance, an American airline pays more for a jet than does a foreign airline that has its financing backed by U.S. taxpayers).

Champions of such subsidies try to pass them off as protecting American manufacturing workers, and so try to package cronyism as populism — but choosing some American workers over others is not nationalism, and subsidizing powerful corporations and foreign buyers is not populism. The purpose of trade policy should be to make all Americans wealthier, not just to enrich selected manufacturing firms and protect only their workers — while hurting others and raising everyone's cost of living.

Our approach to regulating the financial sector, meanwhile, also expressly protects large, incumbent institutions from competition and implicitly protects them from risks inherent in their own investment decisions. The sheer complexity of financial regulation gives an advantage to larger banks over smaller ones, since the former are able to afford the immense compliance apparatus required to live by the rules.

A similar pattern prevails in many other industries. The federal government now subsidizes both fossil-fuel production (especially through the enhanced oil-recovery tax credit and the marginal-well production tax credit) and renewable-energy resources (through the wind-production tax credit, the electric-vehicle credit, and others). These policies distort the incentives for energy

innovation, pick winners and losers in what should be a competitive marketplace, and redistribute taxpayer dollars upward.

In health care, federal policy frequently privileges large, consolidated hospital systems at the expense of smaller provider groups, and Obamacare is packed full of corporate welfare, particularly for insurers and hospitals. In agriculture, farm subsidies are almost pure corporate welfare. They now cost taxpayers some \$20 billion each year, much of which involves upward redistribution from taxpayers to both corporate and family farms whose owners are generally wealthier than most Americans.

At the same time, the federal government has certainly been too lax in enforcing basic antitrust rules in many industries, and has permitted and encouraged a degree of economic consolidation that has hurt consumers to the benefit of large and influential economic actors. Conservatives should champion a revival of antitrust enforcement and defend it as an appropriate responsibility of a limited government in a free economy.

And at the state and local levels, many incumbent businesses and professions (barbers, manicurists, interior designers, and countless others) have successfully lobbied for enormous barriers to entry to their occupations. Such rules not only constrain competition, and so tend to increase consumer costs, they also severely restrict upward mobility and close off paths to better lives. They should be rolled back and resisted.

Prevalent and infuriating though such explicit favoritism is, we must also recognize that cronyism in public policy is not only a matter of direct subsidies and protections but also an essential feature of the administrative state and the welfare state. Both frequently become captives of private actors over whom they have regulatory authority or from whom they are charged with procuring products or services. To ameliorate this, the state would need to become a neutral arbiter of competitive marketplaces rather than a manager of inefficient monopolies.

Today's fee-for-service Medicare program, for instance, is an absurdly micromanaged single-payer health-insurance system in which a federal bureaucracy determines prices for thousands of procedures and sets payment rules for millions of providers. The system is thoroughly captured by the largest of these providers: It subsidizes their operations, protects them from competition, and encourages mass consolidation in American health care. Moving from a single-payer, fee-for-service Medicare program to a premium-support model would take the government out of the business of setting prices and micromanaging providers and would instead empower seniors to choose among real alternatives. This would move Medicare toward

being a competitive market in which insurers and care providers have to vie for consumer preference rather than for government favors.

A similar logic applies to education, where parental choice is restricted by systems that protect incumbent teachers and their unions at the expense of students. In many large school districts, teachers' unions use their financial and political muscle to control the election of school-board members and so effectively choose their own negotiating partners, leaving parents and the rest of their communities powerless to change things. Breaking up such monopolies, by allowing some of the public funds that now flow to school systems to be put instead in the hands of parents and by giving those parents a real choice among educational options, can help these public dollars serve the public rather than a particularly powerful pressure group.

These kinds of reforms are not normally what we think of when we consider the fight against cronyism in public policy, but they are essential to it. Self-dealing and targeted favoritism are unavoidable byproducts of an overgrown administrative state, and one of the foremost reasons to pare back the scope and reach of our government is to reduce the potential for and the reality of such abuses.

Indeed, an anti-cronyist agenda is implicit in much of the conservative reform agenda of our time, across a broad range of issues. But it is important that conservatives make it much more explicit. This would help to clarify both the substantive centrality and the political necessity of the fight against cronyism for our larger cause, and would help voters see that it is the champions of the liberal welfare state, not their conservative critics, who stand for crony capitalism today.

The failure to advance this argument is an instance of a larger pattern in which conservatives have become disconnected from public concerns because we have forgotten the foundations of our own view of the world. A complacent repetition of vague slogans about freedom too often turns the Right into a caricature of itself. A concerted reengagement with the actual conservative case for freedom would instead let the Right offer serious answers to today's most pressing public concerns.