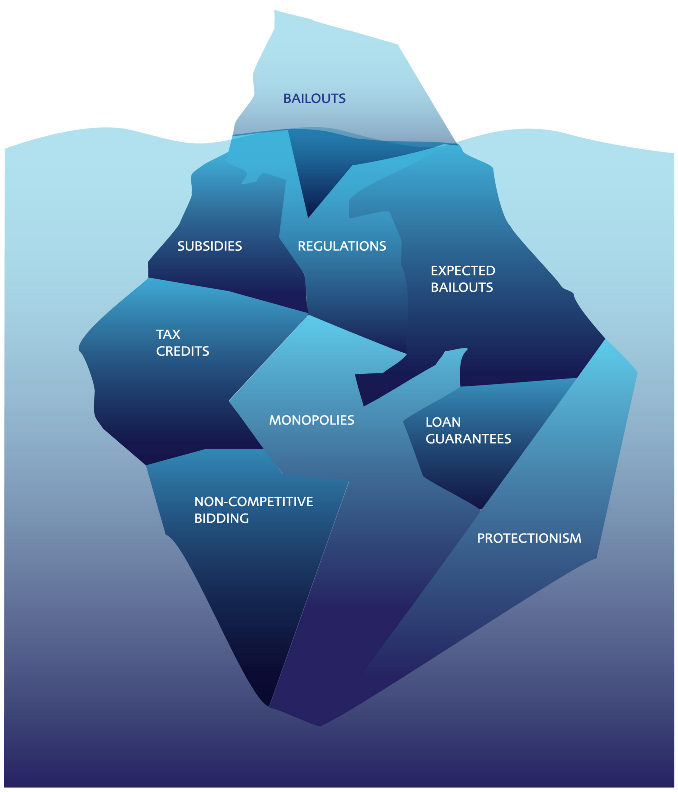
Beyond Bailouts: What Is Cronyism?

While the most common examples of cronyism in modern American history are the bailouts of the 2008 financial crisis, they were only the tip of the iceberg. Bailouts are but one example in a long list of privileges that governments give to particular businesses and industries.

BEYOND BAILOUTS: WHAT IS CRONYISM?



Below are descriptions of each form of cronyism in the infographic. To learn more, read the full paper "The Pathology of Privilege: The Economic Consequences of Government Favoritism."

Bailouts:

In 1971, the US Government, for the first time in its history, bailed out a single firm (Lockheed Aircraft Corporation). In 1984, the Federal Deposit Insurance Corporation rescued the creditors of Continental Illinois National Bank and Trust Company. This bailout marked the first application of the theory that some firms are "too big to fail." Then came the 2008 financial crisis. In one year, the government bought stake or bailed out hundreds of firms including J.P. Morgan Chase, AIG,

Fannie Mae and Freddie Mac. The bailouts culminated in TARP, a $700 billion bailout given to hundreds of financial firms and auto companies.
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Subsidies:

In the last 10 years, the federal government has transferred over $191 billion in subsidies to farmers and owners of farmland. While agriculture subsidies are often characterized as a safety net for poor farmers, the average household income for farms receiving more then $30,000 in subsidies was $210,000. While the agriculture industry is the largest beneficiary of government subsidies, other industries receive them, including the energy industry, which received more than $14 billion in FY2010.
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Regulations:

Regulations aren't always bad for business. Sometimes, the rules are devised in a way that benefit certain companies and impose restrictions on competition. For example, 36 states require government permission to open or expand a health care facility. Twenty nine require government permission to set up shop as a hair braider. Today, 29% of the workforce needs an occupational license (compared to just 5% in the '50s). While barriers to entry impose costs on all firms, they are more burdensome for newer or smaller businesses.
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Expected Bailouts:

Well before they were bailed out, Fannie and Freddie benefited from the expectation of government assistance. Because these firms were chartered by Congress they were widely assumed to have its financial support. This meant that compared with their competitors, Fannie and Freddie were a safe investment. The safety net allowed the companies to obtain loans at interest rates one half of one percent lower than their competitors—a major competitive edge.
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Tax Credits:

One of the sparks that ignited revolution at the founding of the United States came from a tax privilege given to the East India Tea Company by the British Parliament. Today, thousands of companies benefit from special provisions in federal and state tax codes. For example, film production companies operating in Virginia pay no sales tax on production-related products and are allowed refundable individual and corporate income tax credits. Manufacturers also benefit from a federal tax credit which allows them to reduce their tax liability.
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Non-Competitive Bidding:

When Eisenhower warned against the "unwarranted influence" of the "military-industrial complex," he was concerned that certain firms selling to the government might obtain untoward

privilege. It is telling that one of those contractors, Lockheed Aircraft, was the first bailout recipient. A century later, accusations would fly that the George W. Bush administration's "no-bid" contracts to Halliburton and Blackwater were just the sort of nefarious deals that Ike had warned of.
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Monopolies:

Monopoly privileges are not an artifact of the developing world. The US Postal Service is a case in point. By the 1840s, private firms had begun to challenge the postal service monopoly by offering faster service at a lower cost. While the competition forced the US Postal Service to lower its rates, it also encouraged it to harass its competitors: within a few years, government legal challenges drove the private carriers out of business. Today, while other companies can offer package delivery, no others are allowed to deliver non-urgent letters or use the inside of your mailbox. Privately owned firms, including cable operators and many public utilities, enjoy legal monopoly protection as well.
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Loan Guarantees:

Many firms receive support through loan guarantees. In 2009, Solyndra received $535 million from the government, and just two years later, the firm filed for bankruptcy. But Solyndra is not alone—since its inception in 2005, dozens of firms have taken advantage of the Energy Department's loan guarantee program. The Export-Import Bank, the Small Business Administration, and the Department of Agriculture all administer similar loan guarantee programs that benefit particular companies.
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Protectionism:

Trade barriers have historically been a significant source of privilege. But in a remarkable triumph of economic evidence over special-interest pleading, tariffs have steadily fallen throughout the course of the twentieth century. Two exceptions to this decline are noteworthy: On April 1, 1983, the Reagan administration broke with its stated preference for free trade and, in response to a petition from Harley-Davidson, imposed tariffs of up to 49.4 percent on imported heavyweight motorcycles. Nearly two decades later, the George W. Bush administration would impose tariffs ranging from 8 to 30 percent on foreign producers of steel.
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