

The Pony Express and other tales of rent-seeking in America

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Our current economic recovery, or lack thereof, has generated a healthy amount of discontent. Individuals are understandably frustrated with unemployment persisting at levels not seen in decades, not to mention the ad nauseum political bickering from all sides. To deflect any blame for our economic woes, many politicians point to capitalism as the culprit.

Not so. The real scourge of our economy is crony capitalism.

Cronyism occurs when private businesses leverage the political process to gain a competitive advantage. Under pure capitalism, a firm's advantage stems from the value it produces -- not the political favor it curries. True capitalism gives individuals the opportunity to create wealth with minimal government interference. Today's government, however, is anything but minimal.

Recent expansion of the public sector has been nothing short of staggering. In raw dollars, it is now twice the size it was when President Clinton told us "the era of big government is over." This swelling bureaucracy acts as an insatiable middleman -- constantly seizing capital from profitable endeavors and redistributing it to politically connected, less genuinely competitive firms.

Forget about robbing Peter to pay Paul; this is about robbing the Wright Brothers to pay Lehman Brothers.

Though it may be tempting to give in to partisan tendencies and blame the party in power, the problem does not stem from a particular set of lawmakers, but from the political system as a whole. History holds no shortage of cronyism. In fact, one prime example is also a subject of American lore: the Pony Express.

In 1860, the equine mail service faced Solyndra-esque financial trouble -- failing to bring in enough revenue to offset its costs. Despite its faltering position, Congress awarded the company a \$1 million subsidy to sustain operations. This only delayed the inevitable. The Pony Express went bankrupt a mere 18 months after it launched -- leaving taxpayers out the equivalent of more than \$20 million in today's dollars.

To witness the wider effects of crony capitalism, consider the concept of congressional dominance. Federal bureaus have oversight committees within Congress, and various representatives and senators populate them. Those congressmen, through their relationships with and various powers over these bureaus, can impose their preferences upon day-to-day bureaucratic operations.

The Internal Revenue Service, for instance, tends to less frequently audit individuals who live in areas represented by members of the appropriate oversight committees. Constituents of certain oversight committee members for the Department of Health and Human Services actually received more doses of the swine flu vaccine in 2009. And those living in the districts of House Judiciary Committee members receive smaller fines for employing undocumented workers than do those in other parts of the country.

It's the states with less representation on oversight committees that boast higher rates of entrepreneurship. The average unrepresented state has as many as 1,000 more small-business creations compared with a represented state. Not only does cronyism's manipulation of the political process squander our resources and restrict our economic freedom, it dampens the overall climate of entrepreneurship. As business creation is a crucial cog in the engine of economic growth, this impact cannot be overstated and should not be underappreciated.

Those truly committed to prescribing successful remedies to our current economic malaise must first provide the correct diagnosis. Cronyism is what ails our economy today. Capitalism is the cure.

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