The Cronyism Primer

Corporate welfare goes back at least to the Boston Tea Party.

by ALISON ACOSTA WINTERS

Philosopher George Santayana warned decades ago that those who cannot remember the past are condemned to repeat it, and that certainly rings true with that scourge of free enterprise called corporate welfare or crony capitalism—cozy relationships between government and business designed to thwart competition and ease the way toward success for a favored few. Americans have had a long history of cronyism going back at least to the Boston Tea Party.

We remember from history, of course, that the colonists protested British taxation for years. But most Americans don't remember that the Boston Harbor event was actually a protest over a large tax cut. That tax cut affected one company alone: the East India Company, or EIC, which was given dispensation from all taxes on tea it imported into the colonies. This allowed the EIC to undercut prices and guaranteed it a virtual monopoly, putting other importers and American tea merchants at a distinct disadvantage. Corporate welfare was at the heart of this tax cut. The EIC was heavily in debt, and the British Parliament viewed it as too big to fail. Cheaper tea, Parliament reasoned, would both bail out the company and benefit the colonists. But colonists were outraged over this special treatment and proceeded with their protest, dumping the EIC's tea into Boston Harbor.

The anger generated by this kind of governmental favoritism are familiar to us today.

Just last year, presidential candidate Donald Trump hit a nerve when he declared that our system is rigged. Trump became president at least in part because that theme resonated with many Americans who felt left behind in a system that favors Elon Musk's vast empire, extends favorable financing from the Export-Import Bank to Boeing and other multinational corporations, and distributes green energy subsidies to well-connected concerns such as Solyndra. Many Americans correctly feel they are living in a two-tiered society in which the wealthy and well-connected are awarded success at the expense of everyone else.

Some believe this complaint that the system is rigged amounts to an attack on capitalism itself, since the targets often are large corporations. But the reality is that capitalism is distorted by corporate welfare policies, which are antithetical to free markets. Such policies provide special preferences, protections, and subsidies to the favored few as a hedge against competition.

As president, Trump has produced only mixed results in his stated resolve to "drain the Washington swamp." On the one hand, he has placed new restrictions on lobbying for some former government officials. On the other hand, he has singled out individual companies such as Carrier and specific industries such as pharmaceuticals to keep jobs in America with a carrot-and-stick approach: regulatory and tax benefits if they keep jobs here, a huge new tariff if they don't.

But Washington is a big swamp, and there are many smaller ones out in the country, where corporate welfare and crony capitalism are rampant. Many governors, for example, have huge taxpayer-financed economic development funds used to lure businesses to their states—in exchange for new jobs. Even when these incentives fail to deliver promised results, as is often the case, they still benefit well-connected business executives and their companies. Draining the swamp, whether in Washington or state capitals, means not only removing politicians and government bureaucrats, but also those seeking favor from decisions best left to the market.

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A free market is by definition a business environment in which companies produce products and services valued by consumers at a cost they are willing to pay, free from special advantages created by government. In such a market, not only will a business fail when it doesn't create value for consumers, it will be allowed to fail. But well-meaning politicians often can't resist interventions into the free market through bailouts, subsidies, government loan forgiveness, or other lifelines. And of course companies have every incentive to go after such special treatment, both in terms of lobbying for them and flocking to them once they are created. Thus is corporate welfare found at every level of government in America and in nearly every realm of government policy.

The key here is competition. Corporate welfare assaults the very concept of competition by giving selected enterprises government-sponsored advantages or privileges that fall into three fundamental categories: financial support through spending subsidies, tax incentives, special government financing, or bailouts; regulatory preferences such as monopolies or mandates; and protectionist policies such as tariffs or quotas.

In a true free market, government doesn't seek to protect jobs, industries, or firms. Rather, it merely fosters contract enforcement and protects individual rights—including property rights—under the rule of law. Government must also, of course, punish and deter fraud. And governments also have a regulatory mission, but that should apply equally to all businesses in any given industry. Under this concept, there is no tilting of the playing field, no rigging of the system. Markets are allowed to work, failed businesses allowed to actually go under.

This brings us to "creative destruction," a key element of any free market, essential for human progress. Under this concept, as firms compete by offering different prices, products, and services, some will thrive and some will fail. This is just fine. Ideally, government doesn't interfere in this process as some companies fall by the wayside while others soar.

Take, for example, the battles over Uber and Lyft, which demonstrate that the best thing government can do is get out of the way by removing regulatory and tax barriers that make it harder for existing businesses and entrepreneurs to compete. Innovation may not be good for old technologies and those who cling to them, but it is great for consumers. In this way creative destruction provides greater prosperity and advancement over time. The Austrian-born economist Joseph Schumpeter first described this process as an essential element of capitalism, necessary for progress in an always-evolving economy. Even though some are harmed when the market crushes firms that don't innovate, societies as a whole are better off.

But the downsides of creative destruction are difficult for many to accept.

Consider the plight of 20th century buggy whip manufacturers who didn't adapt when cars surpassed the horse and buggy as the primary mode of transportation. Those companies failed, but the economy thrived as car manufacturing transformed society. Creative destruction was allowed to work.

When it isn't allowed to work through the intervention of corporate welfare, the result is economic inefficiency. Subsidies, price supports, and price setting all distort the function of market signals, so firms and consumers make poor decisions and misallocate resources. Winners helped by corporate welfare and losers harmed by it are selected by politicians, not by consumers in the market. Further, it constitutes an assault on individual rights and the rule of law when people, firms, and industries are treated differently through subsidies, tax preferences, barriers to market entry, and other regulatory preferences, including tariffs or import quotas to keep foreign competitors out.

Market intrusions by government also create bad incentives for private firms and individuals, encouraging "rent seeking"—securing special market advantages from politicians that enhance individual wealth without creating societal wealth. Moreover, since government lacks any sensibility of property rights, market signals, or profit imperatives, it can't effectively deal in the realm of innovation or prudent risk-taking. Indeed, corporate welfare destroys wealth through subsidies and tariffs that raise consumer prices, prop up failing businesses, and incentivize firms to favor more expensive rent seeking activities over innovation and competition.

As economist David Henderson writes:

> Cronyism is the substitution of political influence for free markets. It comes about when government has a lot of power over private-sector decisions and when government officials in power have great discretion over how to use it. Cronyism is not simply a zero-sum game that takes from some and gives to others; it is negative-sum. The losses to the losers substantially outweigh the gains to the winners. In short, cronyism destroys wealth. By shifting power to government, cronyism makes political power more important and increases the competition for that political power.

Thus we see that the United States has strayed far from the ideal free market system in which government's role in the economy is limited to protecting individual rights, enforcing contracts, and punishing and deterring fraud. Federal, state, and local governments are growing ever larger and interfering in the free-market economy with increasing abandon. For example, President Obama's last budget projected federal spending of $3.5 trillion in 2016, which was $2.2 trillion higher than in 1976—after adjusting for inflation. Put differently, the federal government will spend more than $31,000 per household this year, a jump of more than $7,000 in real terms since 2000. Additionally, the size of the regulatory apparatus, and accompanying regulatory burden, continues to balloon. Total inflation-adjusted government spending by federal regulatory agencies saw similar growth, from $6 billion in 1970 to nearly $50 billion in 2014 while staffing increased from 90,000 to 284,000 over the same period. According to the Economic Freedom of the World index, the United States has fallen from the globe's second freest country in 1980 to the sixteenth freest today.

Cronyism and corporate welfare can be seen now in virtually all elements of government policy—farm and agricultural subsidies; banking and auto industry bailouts; government loans, loan guarantees, and insurance subsidies; tax credits for manufacturing, renewable energy, and filmmaking; regulatory preferences for monopolies; mandates such as ethanol fuel blends; protectionist policies such as sugar tariffs; and more.

And this phenomenon is visible throughout all levels of government in the United States. State and local policymakers have created large economic development incentive programs, including subsidies for sports stadiums and film producers; certificate-of-need requirements for medical facilities, taxis, and moving companies; and an increasing number of occupational-licensing restrictions.

Unfortunately, there aren't any good metrics on exact levels of cronyism and corporate welfare. Increases in spending, tax, and regulatory activities by government, which are substantial, aren't easy to measure, as not all spending, tax, and regulatory policies represent cronyism or corporate welfare. But they are a good proxy to assess how far the government has strayed from the ideal and how vast the matrix of corporate welfare has become. As Adam Smith observed, the more government intrudes in the market the greater the need for business leaders to act together to protect and advance the needs of their firms from politicians.

Adam Smith was writing in the latter half of the 18th century, about the time of the Boston Tea Party protest against the cronyism of that day. But our history is replete with other examples. Consider what happened in America with the advent of water transportation propelled by steam. As historians Burton and Anita Folsom tell us, in the early days of the United States, traveling by water was often the easiest form of transportation, especially in comparison with traveling over hilly or mountainous terrain. The development of the steam engine was a groundbreaking technology that allowed people to travel more efficiently. Robert Fulton, father of the American steamboat, established the first steamboat line on the Hudson River. Sensing its tremendous potential, Fulton obtained from the legislature a monopoly for all steamboat traffic in the state of New York. This allowed him to control routes and keep prices artificially high. Despite this barrier to competition, Cornelius Vanderbilt helped start a competing line, which offered cheaper fares. The U.S. Supreme Court ultimately struck down the New York monopoly, and almost immediately traffic increased and fares plummeted.

Moreover, competition brought new incentives for innovation, which lowered costs further. Soon innovation produced steamships capable of sailing on the open seas and carrying far more passengers and cargo. Steamships also were deemed worthy of government support, even though special government benefits for steamboats had come at a cost to the industry and to the public. Shipping magnate Edward Collins lobbied successfully for huge subsidies to build and operate a steamship line from the United States to England, one key feature of which was a special subsidy to carry mail. The rationale for subsidies was that they were necessary to compete with England's Cunard Line, also heavily subsidized. Similar subsidies for mail-route carriers soon sprang up around the country. Vanderbilt challenged these subsidies as a form of monopoly, since they posed difficulties for competitors, but Congress stubbornly clung to the subsidies.

Vanderbilt competed against Collins anyway and developed new and innovative ways to reduce costs and lower fares. He introduced the third-class fare, which opened up new worlds for lower-income travelers and filled his boats with paying passengers. Collins, meanwhile, his business acumen blunted by his subsidies, met his undoing. His extravagant ships, designed for carrying the wealthy, were expensive and hazardous. Two of them sank, killing hundreds. When Congress finally pulled the plug on subsidies, Collins went bankrupt. Vanderbilt succeeded by providing passengers of all means more choices and lower costs. That's innovation—the kind of innovation that often doesn't emerge with companies coddled by government.

Consider also the history of U.S. railroading. In 1887 Congress created the Interstate Commerce Commission

(ICC) and gave it oversight of the railroads. Subsequent regulations gave the ICC control over more elements of the freight rail industry, including prices. During World War I, Congress nationalized the railroads and provided them with huge subsidies. Following the war, politicians passed even more prescriptive regulations in an effort to make the railroads profitable. They gave the ICC almost complete control of many critical elements of the industry, including prices, routes, and competition. When trucking emerged as a viable alternative for hauling freight, the railroads asked Congress for regulatory protection from these emerging competitors.

As the Great Depression took a toll on both industries, truckers developed a favorable view towards regulations that would grant them preference against new competition. Congress passed restrictions protecting existing trucking firms by requiring a "certificate of public convenience and necessity" for new entrants into the market. By 1940, the ICC controlled all forms of surface freight transportation. Moreover, the ICC controlled what products and routes truckers could haul, as well as prices. Similar restrictions were in place for railroads—preventing them, for example, from halting service on unprofitable lines. This had tremendous costs for both the affected industries and consumers.

These restrictions proved disastrous, and by the mid-1970s Congress and the ICC began a series of successive deregulatory steps. The results were dramatic. Trucking prices fell by roughly 25 percent, and railroad prices fell even more. Both service and customer satisfaction increased, it became much easier to find work in the trucking industry, and new trucking firms flocked to the market.

But the spirit of Santayana's observation lives on. Rather than learning from history and changing course, corporate welfare policies have become endemic throughout American society. Their breadth and harmful effects can be seen by examining just a small sampling of policies.

1. Financial Support, which includes direct subsidies, loans, loan guarantees, and tax incentives.

Export-Import Bank

The Export-Import Bank provides subsidized financial support through loan guarantees and other types of financial support with preferential terms to U.S. firms exporting to foreign markets. A form of federal subsidy, Ex-Im interferes with market signals by providing U.S. firms a government-sponsored competitive advantage when they sell their products abroad. Ex-Im's subsidies primarily fund a handful of large, multinational corporations; in 2013 the top 10 recipients of Ex-Im's largesse received 75 percent of its financing. This exposes taxpayers to significant risk, but it also directly harms other U.S. firms.

Boeing, Ex-Im's single largest recipient, receives financing subsidies for selling planes to foreign air carriers. This allows the foreign carriers to undercut domestic air carriers such as Delta on international routes. The result: some American jobs are lost in the name of helping others.

It is important to note that Ex-Im financing supports only about 2 percent of all U.S. exports, yet it has created tremendous incentives for its beneficiaries to continue influencing the political process to increase income and profit. Despite progress in 2015 towards ending Ex-Im, Congress, responding to massive lobbying from these firms and special interest groups, reauthorized the bank. As one small consolation, the reauthorization did take some small steps to reduce the bank's lending authority.

Green Energy Subsidies

Many subsidies support manufacturing or production of products preferred by Washington, often counter to market signals. But government doesn't have the right incentives or knowledge to pick winners. Take Solyndra, which received a lucrative $535 million "green energy" loan from funds appropriated in the stimulus package to produce both solar panels and jobs. Instead, Solyndra went bankrupt in 2011, not long after President Obama famously toured the factory and touted the benefits of his stimulus program. A related green energy firm that also received stimulus funds, Ener1, went bankrupt shortly after Vice President Joe Biden toured its factory.

Other green energy corporate-welfare policies include an ethanol production mandate and numerous tax provisions for wind, solar, and other alternative fuel sources. These policies are designed to incentivize firms to produce products in alternative energy markets and sometimes even to stir individuals to purchase those products. Although green energy was favored by politicians, consumer demand was not high enough at unsubsidized prices to send strong market signals to innovators and investors to create products, so various subsidies and incentives were viewed as necessary. But, as Solyndra and Ener1 demonstrate, the government

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is a poor judge of market signals. These same subsidies and other government preferences cause firms to underestimate—or worse, disregard—business risk and make poor decisions.

Farm Subsidies

Today's farm policy harks back to the Great Depression, when farmers were hit by falling prices and crop losses from the Dust Bowl. In response, Congress passed a farm bill and sold it as a temporary, emergency policy that would boost farmer income by propping up prices through price and production controls and even paying farmers not to grow crops. Rather than remaining temporary, however, it was quickly expanded to include federal crop insurance and, over the years, numerous other kinds of programs such as commodity and crop insurance subsidies, crop surplus buy-back programs, and more. These policies pick winners and losers—some crops receive generous subsidies while others do not, and some farms receive subsidies while others do not.

Through the farm bill, lawmakers reward agriculture and its many interest groups as a winning industry, since they don't subsidize other industries as broadly or purposely—even those that face similar challenges such as commodity price fluctuation or weather. One myth of current farm-policy thinking is that it protects small family farms to ensure an adequate food supply and strong competition. In reality, over 85 percent of farm subsidies go to the largest 15 percent of farm producers. Those producers have annual incomes and accumulated wealth that are much higher than the rest of the country on average.

Farm policy keeps prices for some commodities artificially low, which incentivizes farmers to chase government support rather than respond to market demands. For other commodities, it keeps prices artificially high with "marketing orders," which effectively set prices on commodities such as milk and import barriers. Sadly, this kind of corporate welfare remains one of the grounding features of the farm bill.

State Economic Development Funds

Many governors have various tools to help entice businesses and jobs to their states, including economic development or promotion funds, tax incentives, grants, development bonds, and loan guarantees. Oversight of these programs is often questionable, and results are frequently dismal.

Last year the Florida legislature eliminated state funding for Enterprise Florida, a discretionary fund used to attract jobs and businesses to the state. This year, the legislature is attempting to eliminate the fund entirely, along with the Visit Florida fund. Enterprise Florida, for example, has not delivered results on job creation. Rather, it has subsidized large existing Florida businesses in just a handful of Florida counties. Other states, such as Texas and Michigan, also are taking a close look at whether similar programs have a role in a free market. As with other subsidy programs, enterprise funds create terrible incentives for rent seeking and picking winners and losers, thus delivering poor results for taxpayers.

2. Regulatory Preference, including various regulatory protections against competition.

Occupational Licensing

Elected officials and government bureaucrats often write special rules that favor their chosen beneficiaries at the expense of others. Occupational licensing requires individuals to assume burdensome costs, and unnecessary education or training in order to qualify for a government license to perform certain work. While a measure of ensuring knowledge and skills may make sense in some cases, many licenses are overly restrictive, unnecessary, and irrelevant to public health or safety. Instead, their primary objective is to restrict new participants from practicing that occupation, and their prevalence creates incentives for further rent-seeking. As political scientists William Ruger and Jason Sorens observe, "Occupational licensing usually represents guild-style rent-seeking aimed at fleecing consumers and protecting or enriching producers already in the field by artificially limiting the supply of services." This can be seen from the wide array of professional associations lobbying for anti-competitive licensing requirements from federal, state, and local governments. And they have been successful: during the 1950s fewer than five percent of the labor force worked in occupations that required a license, but today that figure has grown to about 30 percent.

Restrictive licensing distorts market signals, drives up costs, and reduces consumer choice. It also violates individual rights by restricting people from using their skills and knowledge freely in the market. As Adam Smith noted:

> The property which every man has is his own labor, as it is the original foundation of all other property, so it is the most sacred and inviolable. The patrimony of a poor man lies in the strength and dexterity of his hands; and to hinder him from employing this strength and dexterity in what manner he thinks proper without injury to his neighbor, is a plain violation of this most sacred property.

States are beginning to take steps to roll back these unnecessary restrictions on occupations such as natural hair braiding, barbering, and more.

Eminent Domain

Eminent domain, the taking of privately owned property by a government entity, is another form of corporate welfare when it is invoked for economic-development incentive programs. The most infamous eminent domain case involved the city of New London, Connecticut, and property owner Susette Kelo. The city condemned a number of residential properties in order to transfer the land to a private firm, Pfizer Inc., which had promised to build a new facility and create new jobs. In 2005, *Kelo v. City of New London* made it to the Supreme Court, whose decision to uphold New London's use of eminent domain for economic development purposes stunned many as a gross violation of property rights. The tragic irony was that Susette Kelo and her neighbors were forced from their property but Pfizer never built its facility and the land sits vacant and bulldozed to this day. Corporate welfare cases like this highlight what a terrible job government does picking winners and losers, but also how it can lead to tragic personal results.

3. Protectionism, which includes tariffs and regulatory barriers.

Catfish Imports

Congress recently shifted inspections of imported catfish from the Food and Drug Administration to the U.S. Department of Agriculture (USDA) in the name of consumer safety. *Pangasius*, a type of catfish imported from Southeast Asia, has become a popular competitor to domestic catfish. In response to declining market share, the U.S. catfish industry successfully pushed for moving inspections to the USDA because they are presumably more rigorous. These new safety inspection regulations are predicted to curb *Pangasius* imports to U.S. markets, despite evidence that such regulation would not actually advance consumer safety. These new regulations have been cited by the Obama administration and the Government Accountability Office (GAO) as duplicative and wasteful. According to the GAO, repealing the program "could save taxpayers millions of dollars annually without affecting the safety of catfish intended for human consumption."

The Jones Act

The Jones Act is another example of crony protectionism. Enacted in 1920, the Jones Act requires all goods and passengers shipped by water between domestic ports in the United States to be carried by vessels built in the United States and owned and operated primarily by American citizens. The Jones Act was originally intended to advance national security by ensuring the United States had enough merchant vessels to sustain commerce and provide auxiliary defense capabilities during times of war or other crises. However, in reality it protects U.S. shipbuilders, owners, and workers from foreign competition within the U.S. domestic market.

Only a handful of domestic shipping firms meet Jones Act requirements. Further, the number of Jones Act certified ships has fallen from 1,072 in 1955 to just 90 in 2014. Intentionally limiting competition distorts market signals and incentives and drives up costs for businesses and consumers.

The Jones Act hits hardest more remote places such as Hawaii, Alaska, and Puerto Rico. For example, shipping costs to Puerto Rico from U.S. ports are double those for nearby Jamaica and the Dominican Republic because Puerto Rico must comply with the Jones Act. Further, the lack of shipping competition drives up prices for goods shipped to the islands. Some studies have pegged the economic costs to Puerto Rico at between \$500 million and \$1 billion annually. The Jones Act also retards any efforts by shipping firms and shipyards to be cost-effective and to improve the quality of service and their ships.

Ironically, the Jones Act makes it difficult to respond to emergencies, including national security crises. The limited number of certified ships led President George W. Bush to temporarily suspend the act after Hurricane Katrina in 2005, and President Obama did the same after Hurricane Sandy in 2012. Individual waivers were granted to specific ships during the Deepwater Horizon oil disaster in 2010, and the act was also suspended during the Libya crisis of 2011. Finally, the Pentagon has repeatedly chartered foreign ships without incident when additional maritime capacity was needed, rendering the national security argument moot.

Sugar Tariffs

Protectionist policies such as U.S. sugar tariffs, quotas, and price supports interfere with market signals and disregard individual rights by keeping foreign competitors out of our markets. Sugar tariffs have been around almost as long as the United States. The first tariff was passed in 1789 as a means to fund the government. But in 1934 the Sugar Act was passed specifically to support the sugar industry. Today's sugar policy includes tariffs, quotas, domestic supply controls, loans, and government buy-backs. Since 1985, the sugar program is supposed to have no cost for U.S. taxpayers. However, this is highly misleading.

Although sugar policies are different from other farm policies, which generally features direct subsidies, the intentional reduction in the supply of sugar still has the very real consequence of raising prices. U.S. sugar prices are about double those of the rest of the world, and while the cost to the average consumer seems small at just under \$10 per year, it adds up. There are only 3,913 sugar beet farmers and 666 sugar cane farmers, but they reap a combined benefit of about $1.7 billion a year, or over $370,000 per farm on average.

Government preferences helped make sugar cane a booming business in Florida. Early in the last century, Florida lawmakers authorized canals to drain the Everglades, making it ripe for farming sugar cane and other crops. Later the Army Corps of Engineers constructed the massive Herbert Hoover Dyke around Lake Okeechobee to protect these vast tracts of land dedicated to sugar farming, and small towns supporting them, from seasonal flooding. But today runoff water flowing into the lake from farms north of it are high in nitrogen and low in oxygen, which has helped create serious algae blooms. In order to keep the lake from overflowing, the Corps drained flood water into the Gulf of Mexico and the Atlantic Ocean, causing serious environmental problems. U.S. sugar policy also destroys wealth, as manufacturers of candy and other products move production—and jobs—out of the country to access cheaper sugar. Thus does this particular corporate welfare, by curtailing foreign competition, reduce the incentives for domestic sugar producers to innovate and improve quality.

The overarching lesson here is that when politicians intervene directly in business decisions it gives business tremendous incentives to form cozy relationships with political leaders. Businesses curry favor through campaign contributions and other emoluments designed to draw from government ongoing help for their enterprises. The risk is that these actions inevitably change the foundation of American democracy from a system based on the rule of law to one based on governmental favoritism.

Take the Carrier story. Carrier was well along the path to moving jobs from Indiana to a new plant in Mexico when President-elect Trump called the CEO of Carrier's parent company, United Technologies, to ask him to keep jobs in the United States. With the help of Indiana Governor Mike Pence (before his elevation to vice president), a deal was cut that gave Carrier $7 million in tax incentives to keep about 800 jobs in Indiana. The fact that Carrier still planned to move 1,400 jobs to Mexico didn't seem to matter much, nor did the fact that Carrier had originally turned down a smaller incentive package from Indiana months earlier. While great news for those 800 or so workers, it was not so great for the 1,400 jobs that were still destined for Mexico. Sadly, because the deal ignores the notion of comparative advantage and the positive nature of trade, it will also likely affect Carrier's ability to manufacture air conditioners cost-effectively and over time will affect the company, its employees, and its shareholders.

United Technologies is a major defense contractor that sells to the federal government engines for the F-35 Joint Strike Fighter (which the president has also criticized for being too expensive), so it had a lot more on the line than 800 jobs at a new plant in Mexico. This is the more troubling part about political leaders intervening in business decisions: what is the quid pro quo? How will business leaders change their plans based on what they expect from government and political leaders? And what is the president's, or any political leader's, expectation of industry? Even if there were no threats or promises made to United Technologies, its leadership had tremendous incentives to play ball, despite the expensive plans and commitments they had already made.

The president's conversations with automakers have had similar results. Threatened with a tariff as high as 35 percent for manufacturing cars in Mexico, Ford announced it would abandon plans to build a $1.6 billion assembly plant in Mexico. Instead, it will take half the savings and build a facility in Michigan that will produce electric cars. Whether those cars will be somehow subsidized is not an unreasonable question. As in so many other cases, there are losers in this decision. The Kansas City Southern rail line had made plans to service the Ford plant in Mexico, plans that are now wasted.

The unavoidable reality in all this is that, while this preferential treatment helps the wealthy and well-connected, it harms everyone else. That's why Trump's fiery declaration that the system is rigged generated so much resonance among so many voters in 2016. But the tendency for the well-connected to seek government privilege, and for politicians to grant it, has deep roots. As technological innovation continues to drive tremendous and exciting change, some firms and industries will falter in the innovation challenge and will inevitably fail. There is already significant pressure on lawmakers for more corporate welfare to both protect existing industries from disruptive competition and to create jobs in emerging industries. Perhaps this means the cozy crony relationship will grow in our political culture.

But perhaps not. Just as the colonists rejected special treatment for the East India Company's tea imports, Congress and the American public have rejected other harmful corporate welfare schemes throughout history. Today's public sentiment that the system is rigged provides a big opportunity for a broad assault on corporate welfare. Failure to capitalize on that opportunity would constitute a fundamental loss for America's economy and its citizens. ■