

THE WALL STREET JOURNAL.

MONDAY, SEPTEMBER 10, 2012

© 2012 Dow Jones & Company, Inc. All Rights Reserved.

Corporate Cronyism Harms America

By CHARLES G. KOCH

"We didn't build this business—somebody else did."

So reads a sign outside a small roadside craft store in Utah. The message is clearly tongue-in-cheek. But if it hung next to the corporate offices of some of our nation's big financial institutions or auto makers, there would be no irony in the message at all.

It shouldn't surprise us that the role of American business is increasingly vilified or viewed with skepticism. In a Rasmussen poll conducted this year, 68% of voters said they "believe government and big business work together against the rest of us."

Businesses have failed to make the case that government policy—not business greed—has caused many of our current problems. To understand the dreadful condition of our economy, look no further than mandates such as the Fannie Mae and Freddie Mac "affordable housing" quotas, directives such as the Community Reinvestment Act, and the Federal Reserve's artificial, below-market interest-rate policy.

Far too many businesses have been all too eager to lobby for maintaining and increasing subsidies and mandates paid by taxpayers and consumers. This growing partnership between business and government is a destructive force, undermining not just our economy and our political system, but the very foundations of our culture.

With partisan rhetoric on the rise this election season, it's important to remind ourselves of what the role of business in a free society really is—and even more important, what it is not.

The role of business is to provide products and services that make people's lives better—

while using fewer resources—and to act lawfully and with integrity. Businesses that do this through voluntary exchanges not only benefit through increased profits, they bring better and more competitively priced goods and services to market. This creates a win-win situation for customers and companies alike.

Only societies with a system of economic freedom create widespread prosperity. Studies show that the poorest people in the most-free societies are 10 times better off than the poorest in the least-free. Free societies also bring about greatly improved outcomes in life expectancy, literacy, health, the environment and other important dimensions.

So why isn't economic freedom the "default setting" for our economy? What upsets this productive state of affairs? Trouble begins whenever businesses take their eyes off the needs and wants of consumers—and instead cast longing glances on government and the favors it can bestow. When currying favor with Washington is seen as a much easier way to make money, businesses inevitably begin to compete with rivals in securing government largess, rather than in winning customers.

We have a term for this kind of collusion between business and government. It used to be known as rent-seeking. Now we call it cronyism. Rampant cronyism threatens the economic foundations that have made this the most prosperous country in the world.

We are on dangerous terrain when government picks winners and losers in the economy by subsidizing favored products and industries. There are now businesses and entire industries

that exist solely as a result of federal patronage. Profiting from government instead of earning profits in the economy, such businesses can continue to succeed even if they are squandering resources and making products that people wouldn't ordinarily buy.

Because they have the advantage of an uneven playing field, crony businesses can drive their legitimate competitors out of business. But in the longer run, they are unsustainable and unable to compete internationally (unless, of course, the government handouts are big enough). At least the Solyndra boondoggle ended when it went out of business.

By subsidizing and mandating politically favored products in the energy sector (solar, wind and biofuels, some of which benefit Koch Industries), the government is pushing up energy prices for all of us—five times as much in the case of wind-generated electricity. And by putting resources to less-efficient use, cronyism actually kills jobs rather than creating them. Put simply, cronyism is remaking American business to be more like government. It is taking our most productive sectors and making them some of our least.

The effects on government are equally distorting—and corrupting. Instead of protecting our liberty and property, government officials are determining where to send resources based on the political influence of their cronies. In the process, government gains even more power and the ranks of bureaucrats continue to swell.

Subsidies and mandates are just two of the privileges that government can bestow on politically connected friends.

Others include grants, loans, tax credits, favorable regulations, bailouts, loan guarantees, targeted tax breaks and no-bid contracts. Government can also grant monopoly status, barriers to entry and protection from foreign competition.

Whatever form these privileges take, Americans are rightly suspicious of the cronyism that substitutes political influence for free markets. According to Rasmussen, two-thirds of the electorate are convinced that crony connections explain most government contracts—and that federal money will be wasted "if the government provides funding for a project that private investors refuse to back." Some 71% think "private sector companies and investors are better than government officials at determining the long-term benefits and potential of new technologies." Only 11% believe "government officials have a better eye for future value."

To end cronyism we must end government's ability to dole out favors and rig the market. Far too many well-connected businesses are feeding at the federal trough. By addressing corporate welfare as well as other forms of welfare, we would add a whole new level of understanding to the notion of entitlement reform.

If America re-establishes the proper role of business in society, all kinds of benefits will accrue. Our economy will rebound. Our liberties will be restored. And when President Obama tells an entrepreneur "You didn't build that," everyone will know better.

Mr. Koch is chairman and CEO of Koch Industries, Inc., which includes manufacturing and energy-related businesses.