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McBride, Lindsey Marie, "Crony Chronicles Website Redesign" (2014). *Undergraduate Honors Capstone Projects*. 637.

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CRONY CHRONICLES WEBSITE REDESIGN

by

Lindsey Marie McBride

**Internship paper submitted in partial fulfillment
of the requirements for the degree**

of

DEPARTMENTAL HONORS

in

**Economics
in the Department of Economics and Finance**

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Logan, UT

Spring 2014

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LINDSEY MCBRIDE

INTRODUCTION

The policy team at the Charles Koch Institute is broken into different areas of research. During my summer internship, I was assigned to research crony capitalism with four other members of the policy team. Along with their research on crony capitalism, these team members maintained a website called cronychronicles.org. For a definition of crony capitalism, or cronyism, see Appendix C. The goal of the website was to be “the leading online resource for everything related to cronyism” (About Us). I was very interested in the research I was conducting on crony capitalism, and enjoyed contributing information to the Crony Chronicles site, but I felt that that the current template for the website and the information contained in the website kept Charles Koch policy team from achieving their goal for cronychronicles.org. Although Crony Chronicles wanted to be the leading resource for cronyism, their website was structured more like a blog. Furthermore, the information contained in the website, and specifically the new blog posts that were added daily, seemed to appeal only to those who fully understand cronyism and were actively searching for news stories on the topic. In order to be the leading resource on cronyism, I felt the policy team needed to appeal to a wider audience and have a standing website that linked to a blog for

reoccurring visitors. I pitched my idea to redesign the website to the policy team, and as a result, I was given the title of project manager over website redesign. In order to redesign the website, I conducted surveys on the current website, researched website design and created a template for an outsourced web designer, and wrote all the content that would be displayed in the new website. I was able to complete all the necessary work for the website to be re-launched on time, but the funding was never secured for the new website.

WEBSITE REDESIGN PROCESS

SURVEY

I began my research by conducting internal and external surveys on the current cronychronicles.org site. For the internal feedback, I surveyed members of the IT department, the recruitment office, development office, and communications department. For external feedback, I surveyed students age 18-25 that were members of the Koch Internship Program that were working for various non-profit organizations within the liberty movement. For both internal and external surveys, I asked each individual to spend 15 minutes on the cronychronicles.org site and record the things they liked and disliked about the site. The home page layout of the website is included in Appendix A. After they had spent time on the site, I asked a series of questions regarding website layout, navigation, color scheme, and content. The feedback was consistent for both internal and external survey.

The majority of surveyors agreed that their favorite aspect of the website was the “Your State” map that collected cronyism stories in all fifty states and displayed them in an interactive map (See Appendix B). Most of the comments regarding the website, however, were overwhelmingly negative. Surveyors agreed that the navigation was confusing; the home page was set up like a blog and users had to scroll to the bottom of the page to navigate back through posted content on cronyism. Furthermore, surveyors were unclear where to click to find more information on cronyism; the definition for cronyism was listed under “About us” in “What is Cronyism.” Users felt the navigation tabs contained very little information about the content that was listed under the tabs. The current navigational tabs are “What is Cronyism,” “Crony Baloney,” “CC Originals,” “Student Center,” “Sign Up,” and “Your State” (see Appendix A). Users were unaware that the “Definitions” listed under “What is Cronyism” were actually different types of cronyism (see Appendix C). Other complaints centered on the odd placement of the search bar, the large amount of space used by the Crony Chronicles logo, and the confusing list of content tags listed along the right hand of the screen.

WEBSITE RESEARCH: CONTENT

Before deciding what content needed to be included in the new website, I needed to more fully understand the goal of the cronychronicles.org site. One of the consistent pieces of feedback I received from the surveys was that the site seemed to be targeted to blog users who were already very familiar with the concept of cronyism. Surveyors also remarked that

there was very little research material on cronyism, and the site seemed to just be a database for new stories. After meeting with the creator of cronychronicles.org and the site's current contributors, we concluded that the goal of the website was not to appeal to such a limited audience. Instead, we defined three different target audiences for the initial site. I decided to restructure the content of the website around the three different target audiences.

First, the website would be directed to individuals who knew nothing or very little about cronyism. Second, the website would be directed to individuals who understood cronyism and wanted to do more academic research on the topic. Third, the website would be directed to the current audience of reoccurring blog visitors looking for the latest cronyism news story. We decided to use navigational tabs on the Crony Chronicles main page to reach out to each audience. The new navigational tabs would be "Cronyism vs. Capitalism," "Types of Cronyism," "For Students," "Your State," and "Blog." Both "Cronyism vs. Capitalism" and "Types of Cronyism" would be directed to individuals unaware of cronyism. The sections would contain definitions, examples, and videos on cronyism. The section "For Students" would be directed to individuals who are aware of cronyism and looking for academic research. The section would contain information on academic articles, books, and economists. The section "Blog" would be directed to reoccurring website visitors who are very aware of cronyism and are looking for current news stories.

WEBSITE RESEARCH: DESIGN

Although the ultimate website design would be completed by the third-party designer and developer, I did some research on basic web design in order to create a website template. According to Spritz Web Solutions, effective websites should focus on appearance, content, functionality, usability, and search engine optimization (Spritz). I assumed details on appearance, functionality, search engine optimization, and some usability would be decided by the professional designer and developer. I used the information provided by Spritz to design some website templates that focused on the website's usability.

The first element of usability that Spritz discusses is simplicity. The companies advice on keeping websites simple and organized was consistent with the feedback I had received from internal and external surveys: surveyors felt the website lacked organization and the layout of website information was confusing. Additionally, Spritz advises website developers to use minimal scrolling. A common complaint among surveyors was the amount of scrolling that was needed to access all the information on the page. In order to simplify the website and decrease scrolling, I decided to switch from the blog format, focus on navigation for information and simplicity, and decrease the amount of scrolling that was necessary for users to access website information. As each page on cronychronicles.org require excessive amounts of scrolling to access all the information, I decided that excess information would be provided on additional pages, instead of underneath the current website content. Each additional page would be neatly organized in navigational tabs on the web page. The final advice Spritz gives on

website usability is to focus on prominent and logical navigation. Similarly, surveyors gave consistent feedback that drop-down navigation did not align with the navigational tabs, and that the navigational tabs gave little information and the content that would be included in those pages. Additionally, surveyors remarked that the search bar, and social media links would be more effective near the top of the webpage. I incorporated the survey feedback and advice from Spritz when creating the website templates.

WEBSITE TEMPLATE

The Charles Koch Institute outsources website design to third-party vendors. In order to cut costs by decreasing time spent with the vendor, I worked with two other Charles Koch Institute Employees to draft templates for the website. We created templates for the Crony Chronicles homepage, the “Cronyism vs. Capitalism” page, the “Types of Cronyism” page, the “Your State” page, and the “For Students.” We did not create templates for internal pages beyond the main navigation. Because of my limited education in web design, all templates were hand drawn and focused more on navigation than on aesthetic design. The intended goal was to leave aesthetic design including color scheme, page layout and use of space, and final navigational decisions to the expertise of the third-party website designer. The navigation focused on the main tabs and drop-down navigation tabs. The navigation was established as follows with main navigational tabs listed with any drop-down tabs underneath:

- What is Cronyism
 - Cronyism vs. Capitalism

- About us
- Types of Cronyism
 - Bailout
 - Regulations
 - Occupational Licenses
 - Subsidies
 - Government Loans
 - Revolving Door
 - Loan Guarantee
 - Corporate Welfare
 - Tariffs
- For Students
 - Articles
 - Videos
 - Economists
 - Subsidies by Industry
 - Infographics
- Your State
- Blog

The main navigational tabs would align horizontally along the webpage, similar to the current navigation, and the drop-down tabs would follow vertical navigation. Once navigational tabs were established, I rearranged the search bar and social media navigational tools. By decreasing the size of the logo, I was able to incorporate more information and content into the extra space, including the search bar and links to Facebook, Twitter, and Youtube. This decreased the amount of scrolling that was needed to access the website content and made the navigational links more accessible, therefore increasing usability.

WEBSITE CONTENT

The majority of my time as project manager was spent rewriting the content for the new cronychronicles.org website. I began this process by working my way back through hundreds of pages of content that could only be found by working backwards through blog pages. Working through the content, I collected definitions, significant links to articles or videos, and pictures or infographics that had been developed by the communication team and posted on cronychronicles.org. I used the information I had collected to supplement the new content I was writing for the website. After meeting with the policy team at the Charles Koch Institute and discussing internal and external feedback, I decided to write new content on the definition of cronyism, the types of cronyism, and the economists that had discussed cronyism. I would also collect links to other articles or videos about cronyism to include in our “For Students” section.

I began by writing the new definition for cronyism. The policy team had the goal to refrain from referring to “cronyism” as “crony capitalism” so viewers would not confuse cronyism and capitalism. Several surveyors, however, remarked that both the term “cronyism” and “crony capitalism” might be confusing for an audience that is unaware of the economic phenomenon. I rewrote the definition of cronyism as a contrast to the definition of capitalism (see Appendix D). I also listed distinct features of both a capitalistic market and a market that engages in cronyism. Finally, I listed the negative aspects of cronyism compared to capitalism.

Next, I wrote a section explaining the different types of cronyism. I focused on nine different types of cronyism including bailouts, regulations, occupational licenses, government loans, revolving doors, loan guarantee, tax privilege, corporate welfare, and tariffs. The definitions provided in the cronychronicles.org website did not follow a consistent pattern, and had very little information concerning the negative aspects of the cronyism. While writing, I created an organized framework for presenting the different types of cronyism. First, I gave the definition of the type of cronyism. Next, I explained why it was considered cronyism and listed reasons it was harmful. Next, I gave two or three examples of the type of cronyism. Finally, I would provide an internal link for viewers to learn more about that type of cronyism. The link would take views to the blog that shows stories that had been tagged with that type of cronyism. The stories or examples that were listed under that specific type of cronyism also had external links to news stories or videos. I followed this framework to define each of the nine types of cronyism that were featured on the cronychronicles.org site (see Appendix E).

Once I had finished writing the content for “Types of Cronyism” I focused on gathering quotes, articles and books for the “Economists” section under “For Students.” In order to expand the academic resources for students seeking to learn more about cronyism, I decided to compile a list of classic and contemporary economists that have dealt with issues of cronyism (see Appendix F). For the classical economists, I focused on Frédéric Bastiat, Milton Friedman, Friedrich Hayek, Joseph Schumpeter, and Adam Smith. For the

contemporary economists, I focused on Henry Hazlitt, Matt Mitchell, James Buchanan, and Gordon Tulluck. For each economist, I would list significant quotes that had been written concerning cronyism. I would also provide a list of the author's selected works and I would provide links to those works if possible. Finally, I provided external links to biographies of the famous economists so additional information would be easily assessable.

CONCLUSION

Over the course of my internship with the Charles Koch Institute I was able to compile all of the necessary information and content for the cronychronicles.org website to be redesigned. In addition to writing the new website content, I had gathered all of the academic articles and videos for the "For Student" section," I had completed over 50 stories to supplement the "Your State" section, and I had created templates for the website design. Once completed, I presented the manager of the policy team with the work I had completed, so that the website could continue with the necessary web design and development. Unfortunately, by the time my internship was complete, the policy team was unable to secure the funding to continue forward with the website redesign. Cronychronicles.org still operates under the old website design, but I left the Charles Koch policy team the work I had completed so that if funding is ever secured, the transition to the new website will be seamless.

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APPENDIX A

CRONY CHRONICLES

[WHAT IS CRONYISM?](#) [CRONY BALONEY](#) [CC ORIGINALS](#) [STUDENT CENTER](#) [SIGN UP](#) [YOUR STATE](#)

How transparent is the federal government?

The Independent Institute [notes](#) that it's not always easy to obtain information from the government.

The EPA denied 458 out of 468 expediting requests, and the State Department 332 out of 334. Homeland Security denied 1,184 such requests, a full 94 percent of the total. And more than ever the government censored materials it turned over or fully denied access to them. That happened in 244,675 cases or 36 percent of all requests. On 196,034 other occasions, "the government said it couldn't find records," and in some material it did release the government "completely marked out nearly every paragraph."

Transparency can help shed light on cronyism or create an environment where it can't exist. On the other hand, limited transparency can have the opposite effect.

This entry was posted in [Government](#) on [2014/03/09](#) by [Crony Chronicles Team](#).

Subsidizing housing development?

The News Telegram [reports](#) that Massachusetts Department of Housing and Community Development has awarded tax credits totaling \$220,000 to local community development corporations.

The private nonprofit community groups will now offer the tax credits to potential donors and businesses as an incentive to fund CDC programs such as building affordable housing and providing job skills training.

This entry was posted in [Government](#) and tagged [Massachusetts Tax Credits](#) on [2014/02/08](#) by [Crony Chronicles Team](#).

Political Centers as Parasite Economies

In 1996, [Richard Veder](#) examined the economic growth of political centers and found that:



ABOUT US

This site exists to be the leading online resource for everything related to cronyism.

Cronyism occurs when an individual or organization colludes with government officials to get forced benefits they could not have otherwise obtained voluntarily. Those benefits come at the expense of consumers, taxpayers, and everyone working hard to compete in the marketplace.

To learn more about what cronyism is, [visit here](#).

SEARCH

Tell us about cronyism affecting you by [submitting your story](#).

Subsidies By Industry

Energy Subsidies
Finance Subsidies
Agribusiness Subsidies
Defense Subsidies
Automotive Subsidies

APPENDIX B

CRONY CHRONICLES

WHAT IS CRONYISM?

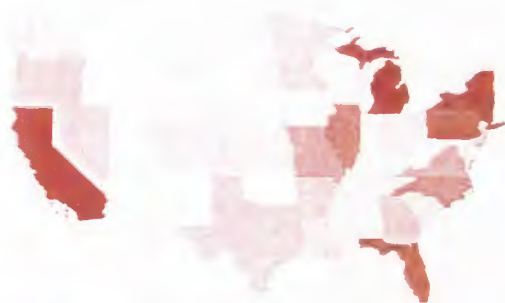
CRONY BALONEY

CC ORIGINALS

STUDENT CENTER

SIGN UP

YOUR STATE



Cronyism in Your State

This map shows how many stories about cronyism we have in each state, click on your state to see the stories. The deeper red means we have many stories, but the white states don't have any stories - yet. If you want to submit your own stories, click [here](#) and fill out the form.

Sign Up To Receive Blog Highlights



ABOUT US

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To learn more about what cronyism is, [visit here](#).

APPENDIX C

CRONY CHRONICLES

[WHAT IS CRONYISM?](#)

[CRONY BALONEY](#)

[CC ORIGINALS](#)

[STUDEYIT CENTER](#)

[SIGN UP](#)

[YOUR STATE](#)

Bailouts



A situation in which a business, individual or government offers money to a failing business in order to prevent the consequences that arise from a business's downfall (source: [investopedia](#))

Legislation



Legislation, otherwise known as bills or laws passed by a governing body, is crafted mainly for the following reasons: to regulate, to authorize, to proscribe, and to provide funds, to sanction, to grant or to restrict.

Government Loans



Public loans offered on favorable terms, typically below-market interest rates or special in-kind payments, to a borrower that cannot be obtained from private lenders.

Revolving Door



A description of the unhealthy relationship between legislators or regulators and the industries they regulate, typically where individuals move from employment with regulatory agencies to employment with the businesses they regulate, or vice versa.

Tariffs



A tax on imports or exports, or a list of government defined prices for commercial services. Tariffs create a market barrier that protects specific industries or businesses. Today, tariffs are typically used to help favored companies claiming to feel threatened by foreign competitors.

Corporate Welfare



APPENDIX D

Cronyism vs. Capitalism

Cronyism and Capitalism are often [confused](#) in mainstream media. People will often blame capitalism for issues that are actually the result of cronyism.

Capitalism

Capitalism is an economic system where wealth is produced and exchanged by private individuals or companies instead of governments. Capitalism is marked by a few distinct features.

1. Individuals have property rights, meaning people are allowed to have ownership of their goods, services, and ideas.
2. People are able to pursue their own interests.
3. Exchanges are made on a voluntary basis.
4. Competition is the driving force for businesses.

Capitalism allows producers to pursue their self-interest and make products under the assumption that they will own those products. Producers can then set their own prices for those goods and services, and consumers can voluntarily accept or reject those prices.

Exchange only occurs when both the consumer and producer agree upon the price (even if both would have preferred a different price). If a consumer does not accept a price, they will look to the prices of the competing businesses.

Cronyism

Cronyism, on the other hand, occurs when governments AND businesses work together to get forced benefits that would not have been received in a voluntary market. In this sense, businesses work with government officials to get special benefits at the expense of consumers, taxpayers, and competing businesses.

Instead of spending resources creating products and services that benefit society, cronyism incentivizes companies to spend resources lobbying the government. Because lobbying is such an expensive investment, it is often, but not always, the biggest businesses that benefit from cronyism. While the benefits may be large for those individual businesses, the costs across all of society are even larger, even if they are wide-spread:

1. Other businesses lose when they can't compete with politically connected corporations
2. Consumers lose because there are less products and services for them to choose from
3. Taxpayers lose because they have to pay for the businesses to get their special privileges.

Simply put, when government picks a winner, everyone else loses.

Cronyism can exist in a variety of forms. A few examples of the types of cronyism are: bailouts, regulations, occupational licenses, government loans, revolving door, loan guarantee, tax privilege, corporate welfare, and tariffs

APPENDIX E

Types of Cronyism

Bailout: A situation in which the government offers a loan to businesses facing financial hardship or bankruptcy.

Why it is cronyism: Bailouts exist as cronyism when governments divert taxpayer dollars to rescue a failing private business. The opportunity for a bailout incentivizes businesses to invest resources in [lobbying](#), so governments will be more likely to bail out the company in times of financial difficulty.

What's wrong with bailouts:

1. Bailouts are a misallocation of resources. Often, businesses begin failing when they no longer provide value for the consumers and the consumers stop purchasing the business's goods or services. Using taxpayer dollars to save a failing company is supporting a company that consumers do not value.
2. Bailouts lead to moral hazards. Businesses no longer worry about the financial burden of their decisions when they expect the government to use taxpayer dollars to bail them out. Essentially, bailouts shift the weight of risk-taking from the private firms receiving the funds to the backs of hard-working Americans.

Examples:

- Beginning in 2009, the U.S. Government used [\\$85 billion](#) to bail out GM and Chrysler. Although the auto companies were expected to pay back the loan, it is estimated that taxpayers will lose \$25 billion in the bailout.
- By 2009, the U.S. Government had loaned about [\\$180 billion dollars](#) to bail out the American International Group

- Approximately 927 companies have received \$606 billion in financial aid from the Federal Government. For a complete list, click [here](#).

Looking for more examples of bailouts? Check out our [blog](#)

Regulations: Rules of law issued by federal government departments and agencies to guide the action of specified industries. Regulations are generally used to enforce legislation enacted by Congress.

Why it is cronyism: Regulations are not always the result of cronyism, but the past 35 years has seen an increase in regulations that actually serve the [private interests](#) of select businesses. The option to lobby the government [incentivizes](#) businesses to show support for regulations that help the specific industry or hurt competing businesses.

What's wrong with regulations:

1. Regulations can lead to a phenomenon called "[regulatory capture](#)." Regulatory capture occurs when a federal regulatory agency begins serving the interest of the industry it was charged with regulating instead of serving the interest of the public. These agencies are referred to as "captured agencies."
2. Regulations decrease competition. Regulations that serve the interest of a specific industry create an uneven playing field that makes competition more difficult and harms the economy. Often, regulations benefit big businesses because they are more burdensome to new and smaller businesses.

Examples

- In Holland Michigan, [regulations](#) protecting local businesses keep 13-year-old Nathan Johnson from selling hot dogs to earn money to help his disabled parents cover finances.

- In 1887 the U.S. government created the Interstate Commerce Commission to regulate the [railroad industry](#), but instead served the interests of railroads and steadily increased regulations until the Penn Central Railroad bankruptcy in 1970.
- At the urging of Nashville's high end limousine company, new [anti-competitive regulation](#) requires low end drivers to charge a minimum of \$45, therefore crippling their business.

Check out more examples of regulatory cronyism in our [blog](#)

Occupational licenses: An occupational license is an [authorization](#) from a governing body to pursue a particular line of work. Government regulatory bodies or private organizations are usually in charge of issuing licenses.

Why it is cronyism: Occupational licensing becomes cronyism when the licensing boards work with the licensed members to benefit those individuals within the industry at the expense of consumers and potential entrepreneurs.

What's wrong with occupational licenses:

1. Licensing laws actually reduce quality of the service while increasing the price. Individuals are prevented from offering a service unless they attend classes, pay various fees, and pass one or more exams to gain a license. The difficulty in obtaining a license decreases competition for those already in the industry. Decreasing competition removes the pressure on businesses to compete by increasing the quality of their service. The limited competition also allows businesses to charge higher prices for their lower quality service.
2. The poor are disproportionately affected by licensing laws. The poorest income group is hurt in two ways by licensing laws. First, they have to pay higher prices

for the services. Second, the high cost school, training, and fees hinder individuals from working their way out of poverty.

Examples

- Jestina Clayton, a native of Sierra Leone, was prevented from practicing African hair-braiding in Utah unless she paid \$16,000 for two year of cosmetology classes to obtain an occupational license.
- The new car service Uber was issued a cease-and-desist order and fined \$20,000 by the California Public Utilities Commission for operating without taxi licenses.

Interested in learning more? Check out occupational licensing stories in our [blog](#)

Subsidies: A cash payment or tax reduction given by the government to companies or industries in order to ease financial burdens.

Why it is cronyism: Governments use subsidies to correct for what is perceived to be a market failure, and are given to industries in need. Because businesses must effectively market their need for government assistance, businesses with skilled lobbyists tend to get subsidies over businesses with real need.

What's wrong with Subsidies:

1. Big companies receive subsidies that [drive out competition](#) from domestic and international businesses. When certain industries or businesses receive additional funds from the government, other domestic and international businesses have a more difficult time competing, which can often lead to businesses shutting down.

2. Subsidies have economic trade-offs. Because the government is only redistributing funds, the money that goes to select industries cannot be used for other goods such as education.

Examples

- The U.S. government has given \$256 billion in farm, disaster, and crop insurance subsidies since 1995. Those subsidies go to the richest farmers: 75% of all farm subsidies were collected by only 10% of farms.
- NFL Stadium Subsidies- Since 1992, governments have given \$18.6 billion in subsidies to 32 NFL teams even though 18 of the teams are owned by billionaires.
 - Oakland, California has the 5th highest crime rate in America, but laid off 138 officers in 2011 because of a \$32 million budget deficit. The city did not cut the \$14 million subsidy to the new Oakland Raiders stadium. The stadium will host only 10 games a season.

Check out our [blog](#) for more stories on subsidies

Government Loans: Public loans that are offered at a below-market interest rate to businesses that cannot secure loans from private institutions.

Why it is cronyism: Cronyism in government loans occurs when the politically connected businesses secure public loans when they cannot find a private lender to cover the risk of their business venture.

What's wrong with government loans:

1. Government loans create a moral hazard that has economic repercussions. The incentive to receive below-market interest rates entices businesses to spend resources lobbying the government rather than using those resources to create a thorough, financially sound business plan. Those businesses receiving loans

have the potential to be less successful, and the cost of failure will fall on the backs of taxpayers.

2. The lower interest rate creates an uneven playing field. Because it is often the politically connected that receive public loans, those businesses that work to secure private loans with more sound business plans are paying higher interest rates. As those higher interest rates translate into higher costs for the company, it is more difficult for the market-supported businesses to compete with the government-supported businesses.

Examples

- Red Sox Legend [Curt Schilling](#) was unable to secure a loan from private companies for his video-game company 38 Studios.
 - After meeting with Rhode Island's Governor Donald Carcieri gave 38 studios a 75 million dollar loan. The company went bankrupt after one year and Rhode Island taxpayers were left to repay the debt. Click [here](#) for the full story.
- The Oregon Department of Energy issued a [\\$10 million loan](#) to SoloPower to develop solar panels. Even though the company also received a \$20 million state tax credit, SoloPower still defaulted on the loan leaving taxpayers responsible for the loss.

Want more examples of cronyism in government loans? Look at our [blog](#)

Revolving Door: A phenomenon used to describe the tendency of legislators or regulators to move from employment with the government to employment within the business they regulate, or vice versa. In 1973, only 14% of Fortune 1,000 companies had people with "government service experience." Since 2002, however, over 50% of those companies have employees with government experience. ([source](#))

Why it is cronyism: The revolving door becomes cronyism when individuals within an industry or government position use their [previous employment](#) to render or influence

benefits for the specific industry. Individuals will, most likely, find arguments from friends whom they trust much more convincing than arguments from strangers.

What's wrong with the revolving door:

1. The revolving door influences government decisions. Whether consciously or subconsciously, government decisions can be influenced when regulatory agencies are populated by employees who have a personal relationship with the businesses they regulate. Instead of using their regulatory power to benefit the public, the regulatory agencies use their power to benefit their former or future employer.
2. The revolving door creates an opportunity for regulatory capture. When individuals move from regulated industries to government agencies, it is more likely that the agency will begin serving the purpose of the industry, rather than serving the interests of the public. Over the last ten years, 5,400 Congressional staff became lobbyists and 605 lobbyists went to work for Congress ([source](#))

Examples

- As the Chairman of the Senate Finance Committee, Senator Max Baucus (D-Mont.) employed 28 former aids that now work as tax lobbyists.
- In 2012, the biggest U.S. bank, [JPMorgan Chase & Co.](#), hired William McLucas, former enforcement chief of the U.S. Securities and Exchange Commission.

Want to read about more stories involving the revolving door? Check out our [blog](#)

Loan Guarantee: Loan guarantees occur when a private institution issues a loan but the government (the guarantor) promises to pay the borrower's debt if the company defaults. Loan guarantees can be limited or unlimited.

Why it is cronyism: Similar to government loans, cronyism in loan guarantees occur when politically connected businesses receive government backing for their loans from private institutions.

Government loans give political allies and politically favored companies unfair financial advantages that political opponents or politically disfavored borrowers cannot get. If these loans were financially sound, then borrowers should be able to find a willing private lender rather than asking political friends to loan them taxpayer money.

What's wrong with loan guarantees:

1. Loan guarantee create a moral hazard. Because the government guarantees the loan will be repaid, private institutions are more willing to give out loans. Private institutions are more willing to take on risky business ventures when the weight of repaying a defaulted loan shifts from private lenders and borrowers to the backs of taxpayers.
2. Loan guarantees are a misallocation of resources. Private institutions give loans to companies that they believe will be able to repay the loan. Often, those are the companies that are creating the most value for the consumer either through new goods or services. Resources are misallocated when loans are given to politically favored institutions rather than institutions that show the most promise for success.

Examples

- In 2009, the politically connected Solyndra, a solar-panel company, received a \$535 million loan guarantee from the U.S. government. Two years later, the company filed for bankruptcy.
- The Government-Sponsored Enterprises Fannie Mae and Freddie Mac hold special privileges in the U.S. government, and the government has

been long expected to guarantee all Fannie and Freddie loans. Default loans have already cost taxpayers \$154 billion.

Read about more examples of loan guarantees in our [blog](#).

Corporate Welfare: Any type of direct payment from the government to a specific company or an entire industry. This includes loans and subsidies among other forms of direct payment.

Why it is cronyism: Companies or industries receiving corporate welfare are politically connected and often financially successful businesses that do not need government assistance. Because of government collusion, however, they receive payments at the expense of taxpayers and consumers, not through voluntary trade in the market.

What's wrong with corporate welfare:

1. Corporate welfare hurts small businesses. When large corporations receive government funds, they are able to charge lower prices than small, local business. The lower prices draw customers away from small businesses until they can no longer compete and must shut down.
2. Corporate welfare values businesses over consumers. When government aid prevents businesses from competing, consumers lose. Consumers have fewer options because other companies go out of business. Instead of having three grocery stores to choose from, consumers may only have one. Consumers also have to pay higher prices when there is only one company offering a good than when there are several companies offering a good.

Examples

- The Export-Import (Ex-Im) Bank is a federal agency that uses taxpayer dollars to give foreign companies loans to purchase U.S. goods. In 2012,

the Ex-Im bank issued \$14.7 billion in aid, and 82.7% (\$12.2 billion) of loan guarantees were for the purchase of Boeing products.

- The Mexican-based satellite company called Satmex is seeking a \$255.4 million dollar loan from the Export-Import bank, even though the company has publically stated they do not need the government-offered lower-interest rate.

Check out more stories on Corporate Welfare on our [blog](#).

Tariffs: A government imposed tax on predetermined imports or exports

Why it is cronyism: Tariffs are government invention in the market that grants unfair privileges to government favored companies. Often tariffs will be imposed under the disguise of patriotic rhetoric about jobs and keeping “mad in America” manufacturers competitive in a global economy. What is masked by those arguments is that government cherry-picks the beneficiaries of the tariffs, blocking international competition, keeping prices for consumers higher of what would have been without the tariffs.

What’s wrong with tariffs:

1. Tariffs create a culture of protectionism. Tariffs keep foreign businesses and industries from competing with domestic businesses. By spending resources lobbying government, specific industries can use tariffs to artificially raise the price of foreign goods thus creating a market barrier that protects domestic businesses at the expense of consumers.
2. Tariffs raise prices and limits consumer choice. By imposing a tax on imports, foreign businesses must increase the price of their goods for the domestic market. Consumers lose because they cannot buy goods at a lower, international price. In

turn, the artificially higher price limits consumer choice to primarily domestic products.

Examples

- In 1999, France refused to accept U.S. beef that contained hormones. To retaliate, a [100% tariff](#) was placed on Roquefort cheese. When consumers continued to purchase the foreign good, the tariff was increased to 300%.
- To fend off tough competition from Japanese motorcycle makers, in 1982 Harley-Davidson successfully lobbied the government for import by increasing the tariff from 4.4 percent to [49.4 percent](#).

Click [here](#) for more stories on Tariffs.

APPENDIX F

Economists

CLASSICAL:

Frédéric Bastiat (1801-1850): French economist and politician

- “The law has been perverted by the influence of two entirely different causes: stupid greed and false philanthropy” - *The Law*
- “The State is the great fictitious entity by which everyone seeks to live at the expense of everyone else” - *The State*
- “Everyone wants to live at the expense of the state. They forget that the state lives at the expense of everyone”
- “But how is this legal plunder to be identified? Quite simply. See if the law takes from some persons what belongs to them and gives it to other persons to whom it does not belong. See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime.” - *The Law*
- “Often the masses are plundered and do not know it” - *Economic Sophisms*
- “Away with the whims of governmental administrators, their socialized projects, their centralization, their tariffs, their government schools, their state religions, their free credit, their bank monopolies, their regulations, their restrictions, their equalization by taxation, and their pious moralizations!” - *The Law*
- “And now that the legislators and do-gooders have so futilely inflicted so many systems upon society, may they finally end where they should have begun: May they reject all systems, and try liberty; for liberty is an acknowledgment of faith in God and His works” - *The Law*

- “Now since man is naturally inclined to avoid pain- and since labor is pain in itself- it follows that men will resort to plunder whenever plunder is easier than work” - *The Law*

Selected works

- [A Petition](#)
- [Economic Harmonies](#)
- [Economic Sophisms](#)
- [The Law](#)

Click [here](#) for more information on Frédéric Bastiat

Milton Friedman (1912-2006): American economist

- “Concentrated power is not rendered harmless by the good intentions of those who create it” - *Capitalism and Freedom*
- “Many people want the government to protect the consumer. A much more urgent problem is to protect the consumer from the government”
- The Great Depression, like most other periods of severe unemployment, was produced by government mismanagement rather than by any inherent instability of the private economy” - *Capitalism and Freedom*
- The power to do good is also the power to do harm” - *Capitalism and Freedom*
- “We have a system that increasingly taxes work and subsidizes nonwork”
- “The government solution to the problem is usually as bad as the problem”
- “Concentrated power is not rendered harmless by the good intentions of those who created it”
- “Nothing is so permanent as a temporary government program”
- “The problem of social organization is how to set up an arrangement under which greed will do the least harm, capitalism is that kind of system”

Selected Works

- *Capitalism and Freedom*
- *Free to Choose*
- *Why Government is the Problem*
- *Bright Promises, Dismal Performance: an Economist's Protest*
- *Tyranny of the Status Quo*

Click [here](#) for more information on Milton Friedman

Friedrich Hayek (1899-1992): Austrian economist

- "If we wish to preserve a free society, it is essential that we recognize that the desirability of a particular object is not sufficient justification for the use of coercion." - *Equality, Value, and Merit*
- "We shall not grow wiser before we learn that much that we have done was very foolish" - *The Road to Serfdom*
- "We must show that liberty is not merely one particular value but that it is the source and condition of most moral values. What a free society offers to the individual is much more than what he would be able to do if only he were free. We can therefore not fully appreciate the value of freedom until we know how a society of free men as a whole differs from one in which unfreedom prevails."
- "The more the state 'plans' the more difficult planning becomes for the individual" - *The Road to Serfdom*
- "There is, in a competitive society, nobody who can exercise even a fraction of the power which a socialist planning board would possess" - *The Road to Serfdom*
- "Who can seriously doubt that the power which a millionaire, who may be my employer, has over me is very much less than that which the smallest bureaucrat possesses who wields the coercive power of the state and on whose discretion it depends how I am allowed to live and work?" - *The Road to Serfdom*

Selected works

- *The Road to Serfdom*

- *Prices and Production*
- “The Use of Knowledge in Society.” *American Economic Review* 35
- *Individualism and Economic Order*.

Click [here](#) for more information on Friedrich Hayek

Joseph Schumpeter (1883-1950): Austrian economist

- “The ballot is stronger than bullets”
- “As a matter of fact, capitalist economy is not and cannot be stationary. Nor is it merely expanding in a steady manner. It is incessantly being revolutionized from within by new enterprise” - *Capitalism, Socialism and Democracy*
- “Capitalism inevitably and by virtue of the very logic of its civilization creates, educates, and subsidizes a vested interest in social unrest” - *Capitalism, Socialism and Democracy*
- “Democracy is a political method, that is to say, a certain type of institutional arrangement for arriving at political – legislative and administrative – decisions and hence incapable of being an end in itself” - *Capitalism, Socialism and Democracy*
- “Bureaucracy is not an obstacle to democracy, but an inevitable complement to it” - *Capitalism, Socialism and Democracy*

Selected Works

- *The Theory of Economic Development*
- *Capitalism, Socialism and Democracy*
- *History of Economic Analysis*

Click [here](#) for more information on Joseph Schumpeter

Adam Smith (1723-1790): Philosopher and political economist

- “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest” - *Wealth of Nations Book 1*
- “As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce” - *Wealth of Nations Book 1*
- “Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things” - *Theory of Moral Sentiments Part 2*
- “I have never known much good done by those who affected to trade for the public good” - *Wealth of Nations Book 4*
- “In general, if any branch of trade, or any division of labour, be advantageous to the public, the freer and more general the competition, it will always be the more so” - *Wealth of Nations Book 2*
- “To widen the market and to narrow the competition, is always the interest of the dealers...The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention.” - *Wealth of Nations Book 1*
- “The statesman who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.” - *Wealth of Nations Book 4*

Selected Works

- *The Theory of Moral Sentiments*
- *An Inquiry into the Nature and Causes of the Wealth of Nations*

Click [here](#) for more information on Adam Smith

CONTEMPORARY:

Henry Hazlitt (1894-1993): American economist, philosopher, and journalist

- “The proposal is frequently made that government ought to assume the risks that are ‘too great for private industry.’ This means that bureaucrats should be permitted to take risks with the tax payers’ money that no one is willing to take with his own.

Such a policy would lead to evils of many different kinds. It would lead to favoritism: to the making of loans to friends, or in return for bribes. It would inevitably lead to scandals. It would lead to recriminations whenever the taxpayers’ money was thrown away on enterprises that failed. It would increase the demand for socialism: for, it would properly be asked, If the government is going to bear the risks, why should it not also get the profits? What justification could there possibly be, in fact, for asking the taxpayer to take the risks while permitting private capitalists to keep the profits?” - *Economics in One Lesson*

- “The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups” - *Economics in One Lesson*
- “The ‘private sector’ of the economy is, in fact, the voluntary sector; and the ‘public sector’ is, in fact, the coercive sector” - *Man vs. the Welfare State*
- “When the government makes loans or subsidies to business, what it does is to tax successful private business in order to support unsuccessful private business” - *Economics in One Lesson*

Selected works

- *Economics in One Lesson*
- *Man vs. the Welfare State*
- *The Foundations of Morality*

Click [here](#) for more information on Henry Hazlitt

Matt Mitchell: Senior research fellow at Mercatus Center

- “Shielded from the discipline of a competitive market, managers and workers at monopolistic firms may exert less effort and may be less efficient than they would be under competitive circumstances” - *The Pathology of Privilege*
- “Protected firms are not only unlikely to minimize costs; they are also unlikely to maximize consumer benefits. In other words, they will be less attentive to consumer desires and will tend to produce lower-quality products” - *The Pathology of Privilege*
- “It is important to emphasize that monopoly privileges create winners and losers. The owners and operators of the monopoly firm, of course, win.... On the losing side are the consumers and would-be competitors” - *The Pathology of Privilege*
- “Think of the thousands of talented lawyers, lobbyists, and strategic thinkers who occupy the expensive office buildings lining K Street in Washington, D.C. All of this talent might be employed in the discovery of new ways to bring value to consumers and to expand the gains from exchange. Instead, many of these smart and hardworking people spend their time convincing politicians to hand out privileges to their own firms or fending off attempts to hand out privileges to their competitors.” - *The Pathology of Privilege*

- “Privilege entails cultural as well as economic costs. When governments dispense privileges, concerns of fairness and impartiality almost always arise. These concerns can undermine the legitimacy of both government and business, sometimes encouraging worse policy” - *The Pathology of Privilege*

Selected Works:

- *The Pathology of Privilege: The Economic Consequences of Government Favoritism*
- “Pick Your Poison: Do Politicians Regulate When They Can’t Spend”

Click [here](#) for more information on Matt Mitchell

James Buchanan (1919-2013): American economist, emphasis in public choice

- “It is relatively easy to think of the collectivity fulfilling its role in protecting person and property from ‘unlawful’ acts carried out by persons. It becomes much more difficult to think of means through which individuals can enforce and protect their rights from ‘unlawful’ acts on behalf of the collectivity itself” - *The Limits of Liberty: Between Anarchy and Leviathan*
- “The most efficient means of organizing [human] activities is that of leaving voluntary solutions full freedom to emerge” - *The Calculus of Consent*
- “Public choice then came along and provided analyses of the behavior of persons acting politically, whether voters, politicians or bureaucrats. These analyses exposed the essentially false comparisons that were then informing so much of both scientific and public opinion. In a very real sense, public choice became a set of theories of governmental failures, as an offset to the theories of market failures that had previously emerged from theoretical welfare economics. Or, as I put it in the title of a lecture in Vienna in 1978, public choice may be summarized by the three-word description, ‘politics without romance’” - *Politics without Romance*

Selected Works:

- *The Calculus of Consent: Logical Foundations of Constitutional Democracy*
- *Cost and Choice*
- *The Limits of Liberty*
- *Freedom in Constitutional Contract*

Click [here](#) for more information on James Buchanan.

Gordon Tullock (1922-Present): Professor of law and economics

- “The individualistic approach or method tends to obliterate any logical distinction or difference between the “public” and the “private” sectors of human activity. Collective action, along with private action, is motivated by individually conceived ends, and all action proceeds only after a mental calculus is performed by some individual or individuals. As decision-making or choosing bodies, individual human beings remain fundamentally invariant over the range of both private and public activity. All attempts of the political philosophers to distinguish sharply between “public right” and “private right” seem foreign to this approach.” - *Calculus of Consent*

Selected Works

- *The Calculus of Consent: Logical Foundations of Constitutional Democracy*
- *Private Wants, Public Means: An Economic Analysis of the Desirable Scope of Government*
- *The Politics of Bureaucracy*

Click [here](#) for more information on Gordon Tullock