1. Introduction

Americans of all political persuasions are disappointed with the way businesses use government to gain advantages in the market and enrich themselves. This wedding of business and political interests is called Cronyism. With cronyism, politically connected businesses are not the only ones that benefit. Those businesses need the blessing of government and they find willing partners in politicians. Together these two players engage in a system of which almost all Americans disapprove. In a Harris poll from May 2012, 86 percent of American’s felt that large businesses have too much power and influence in Washington.¹ The frustration with cronyism took a visible form in the Occupy Wall Street demonstrations in 2011. Many people were disappointed with the bailout and rescue of numerous Wall Street firms and other prominent businesses such as GM and GE. This dissatisfaction did not start with the Occupy movement or the financial crisis. Americans have disapproved of cronyism for some time. In 2000 when Harris asked this same question, 84 percent responded that businesses had too much power in Washington.²

Cronyism is a relationship between politicians and connected businesses. The politicians enrich themselves through legislation, access to privileged stock transactions, and campaign contributions. Politically connected businesses use the politicians to craft legislation and regulations that favor their interests. They also receive grants and loan guarantees from
the federal government. And, since the financial crisis, the most popular method of business cronyism is government bailouts. Bailouts shield under-performing businesses by transferring their losses to the taxpayer.

Cronyism exists wherever there is a mechanism for government power to control the economic lives of people. The type of government does not matter. Monarchies, democracies, and dictatorships are all susceptible to cronyism. The power to control, once it is created, will eventually be controlled by those who seek to enrich themselves. An economy that is more economically free necessarily reduces the opportunities for cronyism because the power to control economic choices is curtailed.

2. Capitalism versus Cronyism

There is a common misperception in economic and political debates that needs to be dispelled. The relationship between government and favored businesses is not capitalism it is cronyism. Politicians often claim the free market mantle by legislating regulations, tax incentives, and subsidies in support of certain businesses. These policies are antithetical to capitalism. A capitalist or free market system is one in which the role of government in markets is limited. The task of government is not to favor certain businesses over others but to even handedly enforce private property rights and provide a court system for adjudicating disputes. When a government goes beyond these fundamental tasks the opportunity for cronyism begins.

A simple yet thorough way to define capitalism is that each person has: 1) personal choice 2) the ability to engage in voluntary exchange coordinated by markets 3) the freedom to enter and compete in markets 4) and their lives and property are protected from aggression by others.³

Cronyism is a type of system where people with power modify these precepts in order to favor themselves and their cronies.

Holcombe and Castillo state that, “Cronyism is a system in which people receive benefits from personal connections—benefits that are not available to individuals who are outside that group of cronies.”⁴ The author Peter Schweizer offers a simpler description, legal corruption.

3. What’s So Bad About Cronyism?

Isn’t cronyism just business as usual in Washington? Haven’t markets and politics always operated this way? It is tempting to think that the current situation is the norm. And for many of us, it seems that Washington has al-
ways operated this way. There was a time in our history when most people recognized cronyism for what it is, legal corruption. In fact, the term “lobbyist” comes from President Grant who liked to spend time in the lobby of the Washington Hotel smoking cigars. Businesses and other interest groups knew this and would wait in the hotel lobby hoping to grab the president’s ear for a moment to press their case. This annoyed the President to no end. He despised them and so began to call them lobbyists. Today, unfortunately, most politicians prefer the company of a lobbyist to that of a fine cigar.

Even if Washington and business hasn’t always operated this way, isn’t cronyism economically efficient? Wouldn’t wealthy businesses still gain an advantage in the market another way? The answer is, no. Businesses engage in cronyism precisely because they seek to use government to give themselves an advantage in the market. Without cronyism businesses would be forced to compete with other businesses to serve their customers better than their competitors. And the fact that many crony businesses sought bailouts during the financial crisis indicates that these firms are not as good as others in serving their customers. Cronyism becomes the life-line of failing businesses.

William Baumol described the harm of cronyism in a simple way. The rules and environment surrounding entrepreneurial activity will determine whether human ingenuity is channeled in a productive, unproductive, or destructive fashion. If markets are governed by voluntary exchange, if property rights are respected and enforced, and if people are free to exchange with one another, then entrepreneurs will channel their efforts in ways that are beneficial to everyone. In markets guided by capitalism, entrepreneurs will attempt to make money by serving their customers. Steve Jobs, Bill Gates, and Fred Smith are all examples of this type of entrepreneurship. The innovations and products they created have transformed our world.

If on the other hand, an economy is dominated by wealthy firms cooperating with politicians to enrich themselves, then entrepreneurs will channel their talents in unproductive and often destructive ways. Instead of innovative new products entrepreneurs will find innovative ways to use government to enrich themselves and their cronies. These entrepreneurs will engage in the zero-sum activity of rent-seeking rather than positive-sum market activity. Their creativity is channeled in an unproductive direction. A classic example of this comes from Holcombe and Castillo’s book on cronyism.
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...electric car manufacturer Aptera Motors laid off 25 percent of its workforce so that it would have the resources to focus on procuring a DOE loan. The remaining employees spent the bulk of their time navigating the myriad forms and processes that were necessary to procure government support. The incentives produced by government loan guarantees, grants, and subsidies remove resources from productive activities and direct them toward unproductive cronyism.

Cronyism allows wealthy firms to use government power to change rules and regulations to gain an advantage. This makes it harder for smaller, less politically connected firms to do business. It destroys the underlying rules of capitalism.

The system that encourages people to engage in productive entrepreneurship is economic freedom. Economic freedom is defined as people having personal choice, the ability to engage in voluntary exchange coordinated by markets, the freedom to enter and compete in markets, and protection of their lives and property from aggression by others. Economic freedom confines government to protecting these rights and freedoms. This is the opposite of cronyism which allows people with wealth and political connections to use government to enrich themselves. A great deal of economic research demonstrates that economic freedom promotes human flourishing. Countries whose markets are economically free have higher life expectancy, a better natural environment, more political rights and civil liberties, lower infant mortality rates, lower poverty rates, and higher incomes. Economic theory and empirical evidence indicates that economic freedom is the environment in which all people have the opportunity to flourish, not just the wealthy few. The alternative is cronyism and “cronyism leads to the decline of nations.”

4. For The Lord Loves Justice

Thus far we have discussed the economic problem of cronyism. But, cronyism is much more than a purely economic problem. It is a moral problem. Politicians using their office to enrich themselves might be acceptable according to the House and Senate ethics standards, but it is still wrong. Cronyism is legal corruption. Nothing can make it morally acceptable. “Their deeds are loathsome and corrupt; not one does what is right.” Whatever laws humans devise, Christians are called to live according to Gods commandments. “For my thoughts are not your thoughts, neither
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are your ways my ways,’ declares the Lord.”¹¹ Cronyism may be politically acceptable, but it is unjust.

The title of this section comes from Psalm 37:27 and summarizes a common theme throughout the Bible. “For I The Lord love justice; I hate robbery and wrong.”¹² God is just and wants us to seek justice.¹³ How is cronyism unjust? And what standard of justice should be applied? There are two dominant views of justice in markets and cronyism is a violation of both. The first view holds that an outcome is just if the process is just. When people interact in markets and everyone is treated equally, fairly, and rights are respected and enforced then the resulting outcome must be just. As long as there is no coercion a just process leads to a just outcome, even if the outcome is unequal. The second view is an outcome based notion of justice and not procedural. The outcome of the process must be equal for all and fair. The rules and procedures are less important than the outcome. The first view is consistent with economic freedom. This view holds that economic freedom is just because all are treated equally and rights are respected throughout the market process. The second view is inconsistent with economic freedom as it necessarily involves a redistribution of outcomes. This view is a distributive view of justice.

While these two views of justice, as it pertains to economic matters, are conflicting they are both inconsistent with cronyism. In other word, regardless of the view of justice you are most sympathetic too, cronyism is a violation of both and as such should be condemned by all. For those sympathetic to the procedural view of justice, cronyism is unjust precisely because it allows wealthy, politically connected individuals to change the procedures of the market. This, by definition, is unjust. The rights and freedoms of everyone must be equal and respected. Any deviation from this principle makes the process an unjust one.

Cronyism also violates the second view of justice. In this case an outcome is just if it is equal and fair for all. Cronyism is the act of guaranteeing unequal outcomes. Cronies use government to ensure this. Therefore, cronyism is also a violation of the outcome based or distributive view of justice.

Cronyism is much larger than a purely economic problem. It is a type of system that is unjust and as Christians we are called to seek and work for justice. Unfortunately, much like the poor, we have always had cronyism with us.
5. Cronyism: The Dominant Economic System of Biblical Times and Poor Countries

Cronyism is not new. In fact, looking back through history one realizes that mankind has lived in a crony world much longer than he has lived in a capitalist world. It is still the dominant economic system in poor countries. As Schweizer notes, cronyism “is a term that used to be applied almost exclusively to developing countries that were rife with corruption.”\(^{14}\) Unfortunately, it has made its way to our shores as “the label can be applied to many sectors of our economy.”\(^{15}\)

The increase of cronyism in markets and politics should be a cause for concern, especially for Christians. We know that cronyism is unjust, but it is also antithetical to the good news that Our Lord preached. In the Gospel of Luke Jesus begins his ministry by fulfilling the prophecy of Isaiah 61. “The Spirit of The Lord is on me, because he has anointed me to proclaim good news to the poor. He has sent me to proclaim freedom for the prisoners and... to set the oppressed free.”\(^{16}\) In Jesus’s time and for much of history, people lived in corrupt economic and political systems. Many of the people in jail were innocent but had fallen afoul of the current cronies in power. It was not uncommon for people to be in debtors prison as a result of not paying back a loan that was probably made with onerous terms. The parable of the unforgiving servant in Matthew is a good example of how unpaid debt was dealt with.\(^{17}\) The parable is ultimately about forgiveness, or lack there of on the part of the servant, but illustrates that falling on hard times was enough to land one in jail or sold into slavery. The good news that Jesus preached was against a backdrop of cronyism.

The story of Zacchaeus the tax collector at the beginning of chapter 19 in the Gospel of Luke is another illustration of the cronyism that existed in Jesus’s time. Tax collectors in those days worked with the occupying Roman forces. Each tax collector was in charge of a certain area and paid the Romans an agreed upon amount. The tax collector then went out and collected the taxes as he saw fit. Usually they incorporated a very large “middleman mark-up” to compensate them for their troubles. It is not surprising that Jesus admonishes them in, “Stop collecting more than what is prescribed.”\(^{18}\) This is why the tax collectors were so hated by the Jews. They collaborated with the occupying army and padded their accounts with much of the taxes collected. This type of cronyism is not unlike the cronyism of today. Politicians and businesses use their positions of power
to increase their wealth at the expense of taxpayers. Our only failing is that we don’t recognize how big of an injustice cronyism truly is.

The people of Jesus’s day clearly did. Hence the outcry when Jesus decides to dine with Zacchaeus. The people can’t believe that Jesus would condone the cronyism of his day. Zacchaeus, much to his credit, repents of his crony ways and promises to make amends.

Jesus’s command to the soldiers should be repeated to those involved in cronyism today. “Do not practice extortion, do not falsely accuse anyone, and be satisfied with your wages.” The saddest part about this is that the cronyism Jesus condemned during the reign of King Herod has become the norm today. Therefore, as Christians we are called to oppose cronyism in the same way that Jesus did.

6. Reducing Opportunities for Cronyism

In a recent paper, Anne Bradley, an economist with The Institute for Faith, Work, and Economics, demonstrated that God wants his people to flourish. Cronyism is not how it is to be done. The success of the few at the expense of the many is not flourishing. The question becomes what can be done to reduce cronyism?

The cronyism that Jesus condemned during his ministry has unfortunately become an accepted part of life in Washington and our state capitals. When people with wealth and connections use government power and taxpayer money to enrich themselves, our society suffers. It does not matter what form of government one has. As long as the capacity exists for governments to dictate and coerce the economic outcomes of people, cronyism will dominate the affairs of mankind.

For some this may seem counter intuitive. Instinctively we often look to the political process for solutions. As Christians we see problems in our world and we try to do something about them. We often turn to the political process with the best of intentions. But even the best of intentions are usually sidetracked to serve the interests of cronies.

The solution to cronyism is not to use the political process to rectify economic wrongs, but to dismantle the capability of those with power to affect our economic lives. A coral reef cannot exist without attaching to a rocky underwater structure. Remove that structure and the reef cannot exist. To undue cronyism we must work toward a system with less structure for cronies to use and abuse.
Therefore, it is helpful to consider the principles of economic freedom. An economically free environment limits the opportunities for cronyism because there is little power to control our economic lives. The enforcement of private property rights and the use of courts to ensure justice lead to human flourishing and less cronyism. Economic freedom provides a wide space between people and the state, a space in which Christians can flourish and cronyism dies. This space allows families, churches, and communities to flourish like the cedars of Lebanon. Our gospel calling is best served in the people and communities around us, not through the state. Economic freedom provides this opportunity.

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This article is an abridged version of “Cronyism, Capitalism, and Human Flourishing,” a research paper from The Institute for Faith, Work, and Economics.

6. Holcombe and Castillo, Liberalism and Cronyism, 70.
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15. Schweizer, Throw Them All Out, XX.


