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GOVERNMENT CRONYISM AND
THE EROSION OF THE PUBLIC'S TRUST:
An Exploratory and Cautionary Essay

John Garen



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ABSTRACT

LARGE GOVERNMENTS WITH broad powers engender competition for influence over those powers. This leads to cronyism, where certain groups obtain special privileges in exchange for political support. The academic literature indicates that, in addition to other negative effects, cronyism can cause public mistrust in government that limits the effectiveness of core government functions such as maintaining property rights and other individual rights. Survey data show a large decline in trust in government, much of which has occurred while government grew rapidly. Evidence indicates that government growth has been associated with rent-seeking and cronyism, leading to a withdrawal of trust. Thus, cronyism—bad government—can undermine even the appropriate functions of government. The literature also suggests that trust can be restored by the practice of good government. It seems that the best way to do so is with a smaller, more focused government that is centered on carrying out its core functions and to steer clear of cronyism.

JEL codes: H11; D72

LARGE, CENTRALIZED GOVERNMENTS with broad powers and discretion over taxation and regulation naturally engender competition for influence over these powers. This competition goes by many names—lobbying, influence peddling, special interest influence, rent-seeking—and has recently come to be expressed by the term “government cronyism.” Essentially, this term means that government bestows privileges such as preferential tax treatment, preferential regulation, influence on policy, subsidies, and subsidized loans upon favored groups in exchange for their political support.

Much has been written about the negative consequences of government cronyism.¹ This essay explores an often overlooked adverse outcome—the squandering of the public’s trust in government—that should concern everyone, especially those who endorse greater government power and spending.

Public trust is crucial to effective government.² However, numerous measures of trust in government have declined to all-time lows. If trust is essential for government to function effectively, then the present situation is disconcerting.

But trust cannot be recaptured by the wave of a magic wand or by the urgent pronouncements of public officials. A growing literature on trust, reciprocity, and cooperation indicates that trust in and cooperation with government is earned by the practice of good government. Cronyism undermines this practice.

Calls for greater government power promise that it will bring great things. Sadly, the result of greater power is often political competition for favors and some form of cronyism. There is evidence that a good deal of the U.S. government’s growth over the past 50 years is related to cronyism, which may explain at least part of the contemporaneous decline in the public’s trust. This paper shows that the United States may be descending into growing cronyism and a greater mistrust of government, which impedes even the essential functions of government: establishing and

1. Please see appendix for a select list of works on trust.
2. This claim is well-supported by numerous studies. See appendix for further reading.

enforcing property rights and other personal rights, maintaining good contract law, promoting competition, and managing public goods and externalities.³

The remainder of this essay presents measures of the decline in trust of government and reviews the literature on why trust in government matters. It discusses literature illustrating that individuals withdraw trust and cooperation from entities perceived to be behaving ineffectively and/or inappropriately, including government entities. It reviews the undesirable outcomes generated by cronyism with a focus on the possible withdrawal of the public's trust, subsequent decline in government effectiveness and citizen welfare, and increased social discord. Some aspects of the current situation are presented, as well as the dismal possibility of a downward spiral in government effectiveness, public trust, and economic productivity.

The literature suggests that cronyism creates serious problems. One lesson that policy makers ought to learn from these considerations is that it is important for government to nurture the public's trust and cooperation. While big government is often viewed as a solution to numerous problems, a smaller, narrowly focused government that presents few opportunities for cronyism may be the best prospect for regaining the public's trust and ensuring the effectiveness of government.⁴

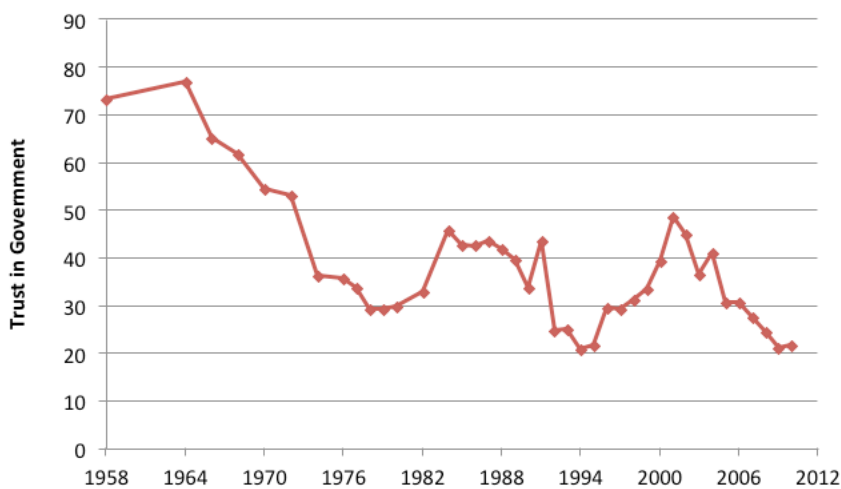
I. THE DECLINE IN THE TRUST OF GOVERNMENT

FIGURE 1 DEPICTS the decline in trust of government in the United States. These data, collected by the Pew Research Center from 1958 to 2010, are annual averages from major public opinion polls that ask about trust in government. The chart shows the percentage of people who say that they trust government “most of the time” or “just about always.” According to these data, trust in government peaked in 1966 at 76.6 percent. A decade later, it had fallen by more than half to 35.6 percent, and it declined to 29 percent by the late 1970s. The public's trust has ebbed and flowed since then, rising as high as 45.5 percent in the mid-1980s and 48.3 percent in the early 2000s, but it has never returned to its earlier heights. As of 2010, it stood at 21.5 percent.

One ought to be cautious in comparing this measure of trust over a more than

3. There is widespread agreement in the economics profession that these roles are among the appropriate functions of government. As examples, see Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), 22–37; Harvey Rosen and Ted Gayer, *Public Finance*, 9th ed. (New York: McGraw-Hill/Irwin, 2010), 4–5, 46–48; Francis Bator, “The Anatomy of Market Failure,” *Quarterly Journal of Economics* 72, no. 3 (August 1958); and Arye Hillman, *Public Finance and Public Policy* (Cambridge, UK: Cambridge University Press, 2003), 3–23, as well as nearly any principles of economics textbook. Some authors include roles for government other than those noted in this paper.
4. Of course, achieving a small, narrowly focused government is easier said than done. Politicians face a prisoners' dilemma: it benefits their short-term interests to reward special interests when other politicians do not, as well as when other politicians do. Also, political support can remain high for politicians that “bring home the bacon” even as this behavior contributes to cronyism and an atmosphere of government mistrust.

FIGURE 1: PERCENT WHO REPORT THAT THEY TRUST GOVERNMENT, 1958–2010



Source: Pew Research Center for the People & the Press, *The People and Their Government: Distrust, Discontent, Anger and Partisan Rancor* (Washington, DC: Pew, 2010), <http://people-press.org/reports/pdf/606.pdf>.

50-year time span. Popular notions of government’s role may have changed over time, making these percentages less comparable. This reasoning seems insufficient to explain the dramatic drop in trust, however. It seems that trust in government has eroded greatly since the 1960s and is now near all-time lows.

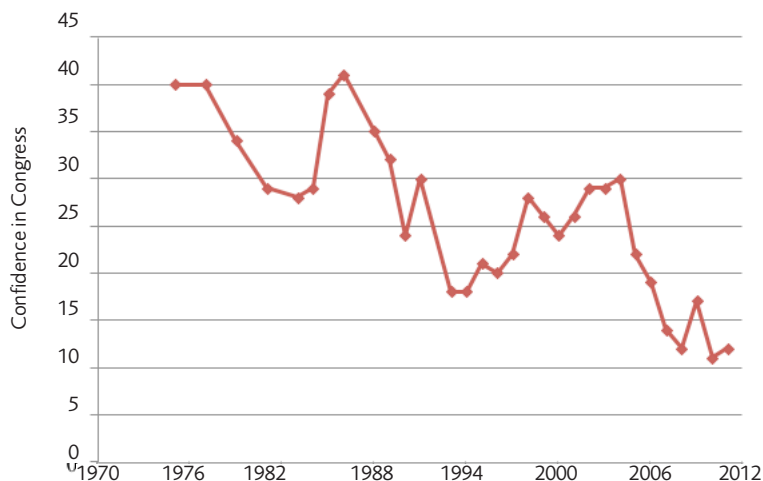
Figure 2 tells a similar story through the findings of periodic Gallup polls. It shows the percentage of respondents who have “a great deal” or “quite a lot” of confidence in Congress. This data series only goes back to 1973, when affirmative responses stood at 42 percent. Though the percentage has ebbed and flowed since then, it has trended downward. Since 2007, Gallup’s measure has been at all-time lows. The most recent survey, from 2011, found the public’s confidence in Congress at 12 percent.

These two data series are not anomalous. In the Pew Research Center data,⁵ similar patterns appear when respondents are asked about various government institutions. Overall, measures of trust are lower than in the past, but some measures have declined relatively little. For example, measures of trust in certain federal agencies (e.g., the Veterans Administration and the FBI) have not changed meaningfully, and satisfaction with local government remains high. The Pew study characterizes the general trends as reflecting frustration with government and a desire for reform, along with less appetite for government solutions.⁶

5. Pew Research Center for the People & the Press, *The People and Their Government: Distrust, Discontent, Anger and Partisan Rancor* (Washington, D.C.: Pew, 2010), <http://people-press.org/reports/pdf/606.pdf>.

6. Ibid.

FIGURE 2: PERCENT WHO REPORT CONFIDENCE IN CONGRESS, 1973–2011



Source: Jeffrey M. Jones, "Americans Most Confident in Military, Least in Congress," *Gallup Politics*, June 23, 2011, <http://www.gallup.com/poll/148163/americans-confident-military-least-congress.aspx>.

Interestingly, a majority of respondents feel that the political system is fine, but that elected officials, such as members of Congress, are the problem. However, a substantial minority respond that the system needs serious reform. These responses speak to the issue of whether people are dissatisfied with “government” or with “governance.” Though perhaps a subtle distinction, the former refers to the formal institutions of government, while the latter refers to the process of governing. The Pew study indicates a greater frustration with governance.

II. WHY DO WE CARE ABOUT TRUST IN GOVERNMENT?

THERE ARE SEVERAL strands in the economics and political science literature on trust and cooperation that pertain to trust in government. One strand views trust and cooperation as aspects of social capital. Broadly speaking, social capital pertains to norms and customs that assist in social cooperation. These norms and customs improve interactions in both commercial and noncommercial settings. Social capital also refers to the value of social relationships.⁷ Numerous studies show that greater trust and social capital are related to better economic outcomes.⁸

7. For a short summary, see Francis Fukuyama, “Social Capital and Civil Society” (IMF working paper, April 2000).

8. Regarding GDP growth and investment, see Stephen Knack and Philip Keefer, “Does Social Capital Have an Economic Payoff? A Cross-Country Analysis,” *Quarterly Journal of Economics* 112, no. 4 (1997): 1251–1288. Regarding entrepreneurship and savings, see Luigi Guiso, Paola Sapienza, and Luigi Zingales, “Does Culture Affect Economic Outcomes?” *Journal of Economic Perspectives* 20, no. 2 (2006): 23–49. For arguments that customs and attitudes were important factors in the historical growth of the Western world, see Nathan Rosenberg and Lee Birdzell, *How the West Grew Rich* (New York: Basic Books, 1986); and Deirdre McCloskey, *Bourgeois Dignity: Why Economics Can’t Explain the Modern World* (Chicago: University of Chicago Press, 2010).

“Much of the strength and efficiency of any government in procuring and securing happiness to the people, depends . . . on the general opinion of the goodness of our government, as well as the wisdom and integrity of its governors,” Benjamin Franklin once said.⁹ The modern academic literature reflects this view, and the secular decline in measures of trust in numerous democratic governments around the world has spawned much concern as well as research by political scientists.¹⁰ This literature provides multiple reasons for the importance of trust in and cooperation with government. Most reasons are related to cooperation with and involvement in the political process and civic activities, such as jury service, voting, volunteering, campaigning, membership in political groups, and willingness to work for the government, as well as attaining honest tax reporting and voluntary compliance with laws.¹¹

It seems clear that without citizen cooperation, basic government functions suffer. Economists of virtually all political orientations agree that certain government functions have value. These include establishing and enforcing property rights and other personal rights,¹² maintaining good contract law, promoting competition, and managing public goods and externalities.¹³ While these functions have value for several reasons, the reason that concerns us here is that they improve social and commercial interactions and raise economic productivity. Government institutions that engender better courts, clear property rights, low contracting costs, appropriate public goods provision, and promote competition are important in this regard. The positive effects of these government institutions and activities are enhanced by citizen cooperation. Voluntarily compliance with the known and accepted parameters of contract and property law limits disputes and saves money on legal fees and other dispute-related costs. Cooperation with police investigations improves property rights and makes it much easier, and much less expensive, to enforce laws. These cooperative attitudes enable government to work more easily and effectively.¹⁴

9. Benjamin Franklin, “Benjamin Franklin to the Federal Convention” (speech, Philadelphia, September 17, 1787), <http://www.usconstitution.net/franklin.html>. Also see a related quote by Abraham Lincoln: “With public sentiment, nothing can fail; without it, nothing can succeed. Consequently he who molds public sentiment goes deeper than he who enacts statutes or pronounces decisions. He makes statutes and decisions possible or impossible to be executed”; Lincoln, “In the First Debate with Douglas” (speech, Ottawa, IL, August 21, 1858), <http://www.bartleby.com/268/9/23.html>.
10. See appendix.
11. Specifics of these reasons for the importance of trust in and cooperation with government are offered in Dalton, *Democratic Challenges*, and Joseph S. Nye, Jr., “Introduction: The Decline of Confidence in Government,” in *Why People Don’t Trust Government*, eds. Nye, Jr., Zelikow, and King.
12. These include rights such as freedom of the press, of religion, and of assembly.
13. Refer to footnote 3 for references.
14. In another vein, Cowen argues that the effectiveness of macroeconomic fiscal and monetary policies depends on the trust and confidence that they will work. Tyler Cowen, “Broken Trust Takes Time to Mend,” *New York Times*, June 16, 2012.

III. CAUSES OF MISTRUST IN GOVERNMENT

SOCIAL SCIENTISTS HAVE labored to understand issues of trust, reciprocity, and cooperation, and a number of their findings apply to trust in government. Many of these findings come from experiments that place subjects in situations where trust and reciprocity can, but need not, occur.¹⁵ Studies in various laboratory settings have repeatedly shown that people engage in some degree of reciprocal behavior, such as trusting and cooperation or withdrawal of trust and punishment, even in situations where narrow definitions of self-interest imply that they would not. Such findings strongly suggest that behavior is in part determined by perceived fairness (i.e., “fair” behavior by the other party is rewarded and “unfair” actions are punished)¹⁶ and that trust and cooperation are intertwined, with greater trust inducing more cooperation.

These experiments may illustrate how social norms are formed and how they affect cooperation. Regarding the latter, Henrich and coauthors report that, in laboratory experiments in various small societies, variations in trust, reciprocity, and cooperation across societies reflect local social norms.¹⁷ Similarly, Hayashi and coauthors indicate that a culture’s level of “general trust” explains higher levels of cooperation in some societies.¹⁸

Though the experimental work deals with individual interactions, it may explain societal levels of trust and cooperation. The latter is the focus of the largely separate literature on trust in government. A subset of this separate literature discusses reasons for the decline in trust in government, both in the United States and in other Western democracies. For example, Blendon and coauthors note that the top four reasons given in a 1995 survey for mistrust of government are inefficiency/wasting money, spending on the wrong things, special interest influence, and politicians’ lack of integrity.¹⁹ Thus, when government growth produces more of these activities, mistrust rises. Alesina and Wacziarg and Stevenson and Wolpers find that better macroeconomic performance is associated with more trust in a country’s

15. For example, in the “ultimatum” game, parties often turn down an offer of a small payment if it is perceived as being unfairly low, even if the alternative is receiving zero. In various versions of “reciprocity” games, participants usually share rewards with an anonymous playing partner even if there is no direct benefit of doing so.
16. The literature on this topic is quite extensive. For a summary of the issues and findings, see Ernst Fehr and Simon Gächter, “Fairness and Retaliation: The Economics of Reciprocity,” *Journal of Economic Perspectives* 14, no. 3 (Summer 2000).
17. J. Henrich et al., “In Search of Homo Economicus: Behavioral Experiments in 15 Small-Scale Societies,” *American Economic Review* 91, no. 2 (May 2001): 73–78.
18. N. Hayashi et al., “Reciprocity, Trust, and the Sense of Control: A Cross-Societal Study,” *Rationality and Society* 11, no. 1 (1999): 27–46. In a related vein, see Omer Al-Ubaydli et al., “The Causal Effect of Market Participation on Trust: An Experimental Investigation Using Randomized Control” (Arlington, VA: George Mason University, 2011), whose findings suggest that markets may be associated with generalized trust that promotes cooperation.
19. Robert Blendon et al., “Changing Attitudes in America,” in *Why People Don’t Trust Government*, eds. Nye, Jr., Zelikow, and King, 205–216.

government, presumably based on the idea that good government policy induces better economic performance.²⁰ Pharr finds a negative relationship between misconduct by government officials and measures of trust in government in Japan.²¹ Andreoni, Erard, and Feinstein review studies showing that experiment participants are less tax-compliant if they perceive that tax dollars are wasted, if they are less satisfied with or are alienated from government, or if they perceive their tax obligations as unfair.²²

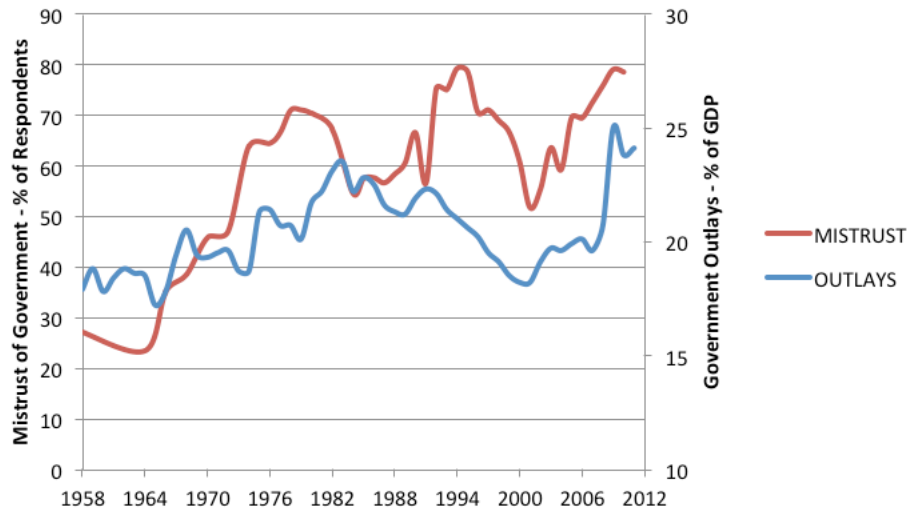
These findings mesh with the idea of reciprocity as a social norm and suggest that this norm is applied to government. If government is perceived to be effective, then citizens reciprocate with trust and presumably with cooperation. Conversely, if government is perceived to be ineffective, inefficient, or corrupt, citizens reciprocate with mistrust and a withdrawal of cooperation.²³

These ideas seem broadly consistent with the experience in the United States. Recall from figure 1 the extraordinary decline in trust in government from the late 1960s through the 1970s. This decline was accompanied by a steady upswing in U.S. government spending and by an explosion in federal regulation, as shown in figures 3 and 4, which graph *mistrust* rather than trust. Mistrust is simply the percentage of people who *do not* say that they trust government “most of the time” or “just about always.” Figure 3 plots the mistrust percentage and federal spending as a share of GDP. From 1966 to 1976 as mistrust grew starkly, government spending as a share of GDP rose from less than 18 percent to more than 21 percent. In other words, real GDP rose by one-third between 1966 and 1976 while real federal outlays rose by almost two-thirds, or 60 percent.

Figure 4 plots the mistrust percentage with the number of pages in the *Federal Register*. The latter is a proxy for the extensiveness of federal regulation. Again, the 1966 to 1976 period shows a drastic increase in federal regulation: the number of *Federal Register* pages more than tripled, from 16,850 to 57,072.²⁴ Though this page count is a crude measure of federal regulatory presence, it illustrates how the federal government’s role grew during this time.

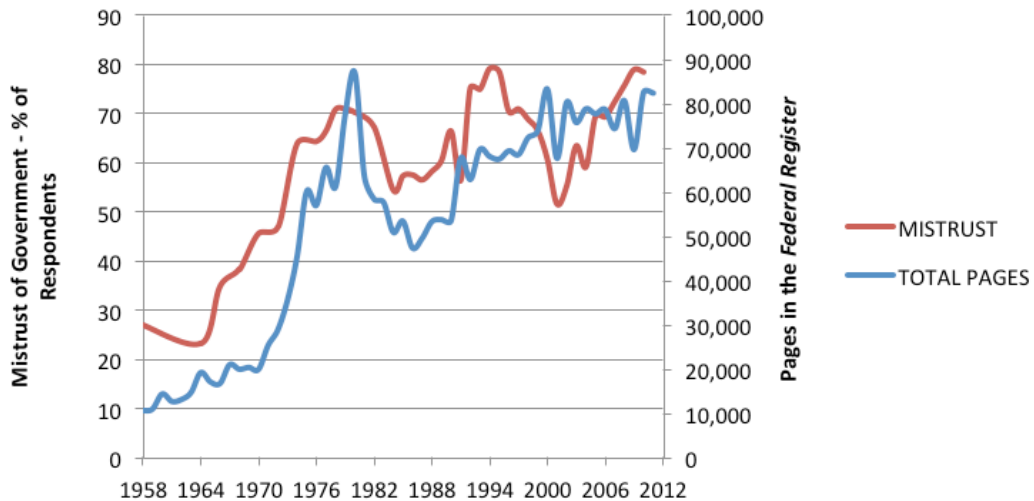
20. Alberto Alesina and Romain Wacziarg, “The Economics of Civic Trust,” in Pharr and Putnam, *Disaffected Democracies*; Betsey Stevenson and Justin Wolpers, “Trust in Public Institutions over the Business Cycle,” *American Economic Review* 101, no. 3 (May 2011).
21. Susan J. Pharr, “Officials’ Misconduct and Public Distrust: Japan and the Trilateral Democracies,” in Pharr and Putnam, *Disaffected Democracies*.
22. James Andreoni, Brian Erard, and John Feinstein, “Tax Compliance,” *Journal of Economic Literature* 36, no. 2 (June 1998): 818–860.
23. Reciprocity also is consistent with Clark and Lee’s approach. See Jeff R. Clark and Dwight R. Lee, “Is Trust in Government Compatible with Trustworthy Government?” in *The Elgar Companion to Public Choice*, eds. William F. Shughart II and Laura Razzolini (Northampton, MA: Edward Elgar Publishing, 2001), 479–493; Clark and Lee, “The Optimal Trust in Government,” *Eastern Economic Journal* 27, no. 1 (2001): 19–34. They emphasize that while the public’s trust is important for government to function, good government performance earns that trust.
24. Law Librarians’ Society of Washington, DC, Federal Register Pages Published Annually, <http://www.llsdc.org/attachments/wysiwyg/544/fed-reg-pages.pdf>.

FIGURE 3: MISTRUST IN GOVERNMENT AND FEDERAL SPENDING AS A SHARE OF GDP, 1958–2012



Sources: Pew Research Center, *The People and Their Government*; Office of Management and Budget, *Historical Tables*, <http://www.whitehouse.gov/omb/budget/Historicals/>.

FIGURE 4: MISTRUST IN GOVERNMENT AND FEDERAL REGULATION, 1958–2012



Sources: Pew Research Center, *The People and Their Government*; Law Librarians' Society of Washington, DC, *Federal Register Pages Published Annually*, <http://www.llsdc.org/attachments/wysiwyg/544/fed-reg-pages.pdf>.

As mistrust in government in the United States grew markedly, so did federal spending and regulatory actions. In subsequent years, the relationship between mistrust and government activity also seems to hold, though we have never returned to the previous high levels of trust. These relationships show correlation, not causation, but the association of mistrust and government size is striking.

Other material from Pew shows similar relationships.²⁵ Recall from figure 3 that mistrust in government shot up from around 60 percent to nearly 80 percent during the first decade of the 2000s, while federal spending as a share of GDP rose from just over 18 percent to nearly 25 percent. During this approximate time period, Pew survey findings show a steep decline in the percentage of people reporting that they are “basically content” with the federal government and substantial increases in the percentage who say the federal government does a “poor job” in running programs, is in need of “major reform,” and “has the wrong priorities.”²⁶

The ebb and flow of trust in government also correlates to GDP growth per capita. The statistical correlation between these two variables during the 1958 to 2010 time period is substantial at 0.314, with statistical significance above 5%. Various episodes within this time period are illustrative of this correlation. For example, from 1966 to 1976 – when trust dropped dramatically – GDP per capita grew, on average, by 2.05 percent annually. This was much lower than the 2.90 percent annual GDP growth of the previous decade. Other illustrative subperiods are the 1980s when trust began to rise and GDP per capita growth averaged 2.52 percent per year. Trust also rose in the latter six years of the 1990s, and GDP per capita grew by 2.38 percent annually. In the 2000s prior to the latest recession, trust began to fall and GDP per capita growth dropped to 1.44 percent per year.

While a full statistical analysis would be useful in drawing links between government size, performance, public dissatisfaction, and public trust, these charts and figures suggest such relationships. There is evidence that government growth since the early 1960s is due to greater rent-seeking and cronyism. Many transfer payments are a result of lobbying rent-seeking activity. Federal support of road and transportation projects, local economic development initiatives, agricultural crop support, and energy programs, as examples, are often “pork barrel” in nature in that they are aimed at particular interest groups. Since the 1960s transfer payments have increased as a percentage of federal spending. In 1966, 27.6 percent of the federal budget allocated transfer payments to individuals. By 1976, this figure had risen to 48.6 percent. It has been around 60 percent for the past decade.²⁷

Another study that is suggestive of a similar relationship is that of Aghion and coauthors.²⁸ Their study uses World Values Survey data on general trust levels in

25. Pew Research Center, *The People and Their Government*.

26. Note that the wars in Afghanistan and Iraq occurred during this time frame and perhaps influenced the responses, though conflicts in earlier periods probably affected responses in those periods as well.

27. See Office of Management and Budget, *Historical Tables*, <http://www.whitehouse.gov/omb/budget/Historicals/>. For studies supporting the view that greater rent-seeking is expanding the U.S. government, see Gordon Tullock, “Government Spending,” in *The Concise Encyclopedia of Economics*, ed. David R. Henderson (Liberty Fund, 2002), <http://www.econlib.org/library/Enc1/GovernmentSpending.html>; and Roger Congleton, “The Politics of Government Growth,” in Shughart and Razzolini, *The Elgar Companion to Public Choice*, 457–478.

28. Philippe Aghion et al., “Regulation and Distrust,” *Quarterly Journal of Economics* 125, no. 3 (2010): 1015–1049.

different countries and relates it to various measures of regulation in those countries. As an example of their results, they find that an index of government regulation of entry of firms into markets—an economic efficiency-reducing regulation—is associated with higher values of the World Values Survey measure of general mistrust, i.e, a higher level of entry-limiting regulation is associated with more mistrustful attitudes. Similar results occur with other efficiency-reducing regulations. Though Aghion’s findings refer to general levels of trust in institutions by the public and not specifically to trust in government, they are consistent with the U.S. data and with the above-noted studies indicating that a poorly performing government erodes citizens’ trust.²⁹

Many ideas in the literature on societal trust, reciprocity, and cooperation have been applied to trust in government. Numerous findings suggest that governments engender their citizens’ trust and cooperation with effective and valuable actions and that they squander it with actions perceived to be ineffective, wasteful, and in favor of special interests. Granting favors to interest groups is characteristic of cronyism and rent-seeking. Unfortunately, there is evidence suggesting that much of the growth in government over past 50 years has been due to rent-seeking and cronyism. If true, this growth may account for much of the decline in trust in government. Because the essential functions of government require the public’s trust and cooperation, we should be cautious in adding or expanding government initiatives. Further government expansions that involve cronyism may fracture any remaining bonds of trust between the public and government.

IV. THE MANY CURSES OF CRONYISM

THE NEGATIVE CONSEQUENCES of governance by cronyism have been written about extensively.³⁰ Crony governments generate programs and initiatives that favor certain activities. Nonfavored activities then must be taxed to fund the politically favored ones. These transfer payments distort work effort and investment toward the politically favored activities and away from others. When resources are shifted toward producing goods and services that a select minority value highly but the

29. Aghion et. al. also examine how mistrust can cause regulation in “Regulation and Distrust.” For a related paper that considers how wasteful government spending affects mistrust, but also how mistrust can generate wasteful spending, see Garen and Clark, “Trust and the Growth of Government.”

30. Classic work includes Tullock, “The Welfare Costs of Tariffs, Monopolies and Theft,” and Krueger, “The Political Economy of the Rent-Seeking Society,” and an early survey is Tollison, “Rent Seeking.” Other examples are Murphy, Shleifer, and Vishny, who discuss the effects of rent-seeking on economic growth in “Why Is Rent Seeking So Costly to Growth?”; Olson, who considers its influence on the rise and decline of nations in *The Rise and Decline of Nations*; and Bhagwati, “Directly Unproductive, Profit-Seeking (DUP) Activities,” in the context of international trade and tariffs. There are numerous other significant writings on this topic.

vast majority of the populace values only minimally,³¹ economic growth and general well-being suffer.

Worse still is the shifting of resources into lobbying, influencing, and culling favor with government. Thus, cronyism does not merely shift resources to producing something of *lesser* value; it shifts resources to activities that have *no* value. Lobbying produces nothing except a distorted, slower-growing economy.³² General welfare suffers.

The long-run consequences of cronyism can be even more deleterious. Individuals and organizations make time-consuming, long-term investments in human capital. Government cronyism engenders a higher return to developing lobbying and political skills—to becoming a crony—rather than to developing economically productive skills. Thus, we expect human capital investments to be shifted toward political skills and away from productive skills that improve the provision of goods and services to customers. Because these skills are long lasting and change slowly, a shift in the labor force’s skill set toward political skills and away from productive ones has enduring consequences: long-run economic growth suffers. Additionally, attempts to reform government by curtailing cronyism encounter strong political opposition from those whose skills are tied to cronyism since they do not want the skills they have invested in to become useless.³³

Adding to these problems is the loss of the citizenry’s trust. As discussed earlier, even basic government initiatives cannot succeed without a certain degree of public trust in and cooperation with government. These basic functions help to foster social harmony and productive commercial transactions. Indications of increased rent-seeking and cronyism in the U.S. government thus raise a grave concern: cronyism spends a great deal of the public’s money, but it squanders the public trust, undermines government’s effectiveness, and fosters economic and social stagnation.

People have always tried to influence government in order to gain at another’s expense, but under a government that embraces cronyism, political influence becomes the coin of the realm. Government is transformed into an institution predominantly used to extract wealth from one individual and bestow it upon another,

31. These types of losses are often referred to as “Harberger triangles” for Arnold Harberger’s seminal work on its measurement. See Arnold C. Harberger, “Monopoly and Resource Allocation,” *American Economic Review* 44, no. 2 (May 1954): 77–87.

32. First pointed out by Tullock, “The Welfare Costs of Tariffs, Monopolies and Theft.”

33. Gordon Tullock, “The Transitional Gains Trap,” *Bell Journal of Economics* 6, no. 2 (1975): 671–678. Tullock initially developed this line of reasoning in a different context. Clark and Lee developed it further in Jeff R. Clark and Dwight R. Lee, “The Increasing Difficulty of Reversing Government Growth: A Prisoners’ Dilemma that Gets Worse with Time,” *Journal of Public Finance and Public Choice* 21, nos. 2–3 (2003): 151–165. Other ideas regarding the allocation of human resources are in Baumol, William, “Entrepreneurship: Productive, Unproductive, and Destructive,” *Journal of Political Economy*, 98(5), part 1, October 1990 and Murphy, Kevin M.; Shleifer, Andrei; and Vishny, Robert, “The Allocation of Talent: Implications for Growth,” *American Economic Review*, 106(2), May 1991, who argue that as entrepreneurs are increasingly diverted into rent-seeking, economic growth suffers.

rather than being a means of cooperation to facilitate individuals' achievement of their several goals and purposes. Government cronyism thus seems bound to create friction and social discord. Political outcomes tend to be mandatory and one-size-fits-all in nature, so the only means to get one's way is to engage in political squabbles. If one loses, there is little recourse. Conformity is forced upon the populace without its agreement. One part of the citizenry will become upset with the other over what's being forced upon them, and nasty political disputes will ensue.³⁴

Public mistrust of government and social conflict are bad enough, but a climate of cronyism can also engender mistrust in those private-sector institutions that seek and receive special treatment from government. Banks and big business often are the most visible organizations engaged in these behaviors. Figure 5 presents data from Gallup polls showing the percentage of respondents who have "a great deal" or "quite a lot" of confidence in banks and in big business.

Trust in both institutions shows some ups and downs over the years for which data are available. Both, but especially banks, generally show a downward trend over the last decade. The confidence percentage for big business historically has been much lower than that for banks, but both are at all-time lows. That a similar trend holds for trust and confidence in government suggests that mistrust has spread widely.

Close ties between business and government are often formed through implicit or explicit regulatory capture. Regulatory capture refers to the co-opting of policymakers, regulators, or political bodies by special interests to further the interest group's own ends. In other words, the regulator is captured by the regulated. This phenomenon is not new: it has occurred for decades in industries as widespread as transportation, telecommunications, energy, agriculture, and financial services. The regulation might be explicit, such as the entry regulation that used to pervade interstate transportation and still does for electric utilities and various occupations, or the regulation may be less direct, such as an environmental policy that affects energy firms or a trade policy that influences agricultural products companies. Regardless of a regulation's nature, a large body of literature demonstrates that regulated firms often shape the regulatory apparatus to their benefit.³⁵

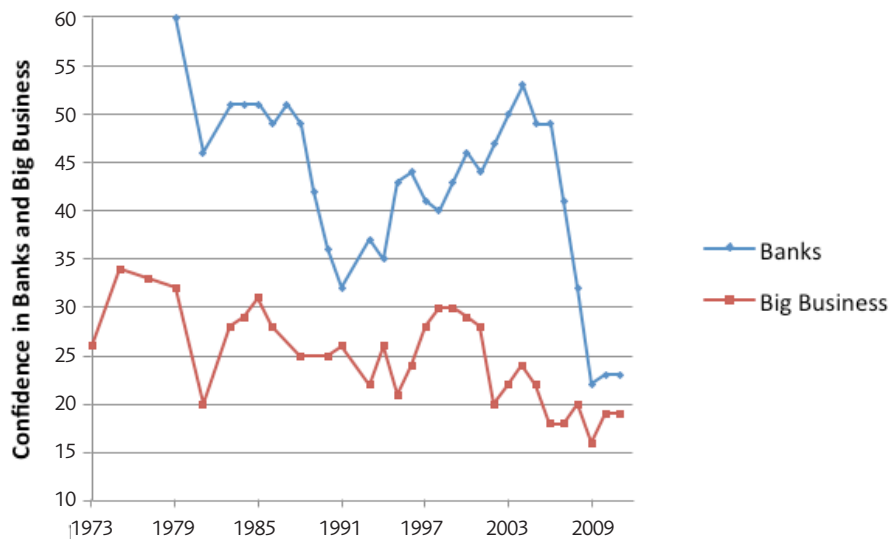
The regulatory apparatus can create the illusion of a strong government policy that protects the consumer. It may be quite difficult for the public to see through this veil, but once it does, public mistrust of both the regulated industry and the regulator is likely to emerge.

Public mistrust of the private sector also has negative consequences. As noted previously, trust facilitates both commercial and noncommercial interactions. An

34. For a similar discussion, see Friedman, *Capitalism and Freedom*, 22–25.

35. The literature on regulatory capture is quite extensive. For an entrée to some of its basics, see Adam Thierer, "Regulatory Capture: What the Experts Have Found," *Technology Liberation Front*, December 19, 2010, <http://techliberation.com/2010/12/19/regulatory-capture-what-the-experts-have-found>.

FIGURE 5: PERCENT WHO REPORT CONFIDENCE IN BANKS AND IN BIG BUSINESS, 1973–2009



Source: Jones, "Americans Most Confident in Military, Least in Congress."

infestation of mistrust in the private sector thus lowers the general welfare. Also, successful businesses rely on their good reputations to develop trust with customers. If firms are more concerned with cultivating relationships with government than with customers, their reputations with the latter group will suffer, as will their productivity in adding value to the marketplace. Additionally, McCloskey argues that positive attitudes toward markets, innovation, trade, and entrepreneurship were important causes of the historical economic growth of the Western world.³⁶ Without these positive attitudes, we can expect economic growth to suffer and progress to stagnate. Yet, simply trusting big government and other major institutions would not solve these problems. Trusting an untrustworthy entity only makes it easier for the untrustworthy to pursue worthless activities.³⁷

Cronyism can also create confusion about property rights and their importance to a free society. The privileges that crony governments grant to their special-interest clients are falsely interpreted as property rights. For example, licensing requirements, trade barriers, and other restrictions on market entry create a "right" that only certain firms may operate in these markets. These "rights" are the antithesis of true property rights. Property rights enable persons to utilize their property as they see fit, as long as their activities do not infringe on the like rights of others. Barring individuals or organizations from utilizing their property to enter markets and trade with others is a violation of property rights, not an example of them. In

36. McCloskey, *Bourgeois Dignity*.

37. While greater trust in one party may always tempt the latter to "cheat," it is sensible to trust more in those who have exogenously greater trustworthiness due to reputation or other factors and trust less in those who do not.

fact, well-respected property rights protect citizens from such incursions by government. Sadly, crony government-created “rights” for the privileged few are not always recognized as the violation of property rights that they are.

V. THE PRESENT SITUATION

THE PEW DATA illustrate many aspects of the present situation.³⁸ Trust in government, Congress, and most government agencies is on the decline and at an all-time low. A similar pattern holds for many private institutions. Furthermore, fewer and fewer people report that they are content with the federal government, and more and more indicate that it does a poor job, needs major reform, and has the wrong priorities.

Federal government growth has accompanied these trends over that past decade. Federal spending as a share of GDP has increased over this period and has recently reached post-World War II highs. The extent of regulation as measured by pages in the *Federal Register* has increased in recent years as well. The Patient Protection and Affordable Care Act and the Dodd–Frank financial regulation bill are important examples of this upsurge.

One mark of cronyism is the quid pro quo in which influence with and favorable treatment from government comes with the expectation of political support by the “crony” for the relevant government officials and programs. The media regularly highlight these implicit deals. Some of the more recent and well-known ones include the following:

- subsidized loans to Solyndra and other “green” energy companies that have close connections to and are political supporters of the current administration
- similar types of government support for electric car makers
- the continual movement of people on Wall Street and related financial institutions into and out of regulatory positions in Washington
- the deal-making and discussions over health care reform among politicians, policy makers, and interest groups
- similar occurrences regarding financial institutions and the Dodd–Frank financial reform bill
- the lobbying and influence by energy companies over proposed limits on carbon emissions

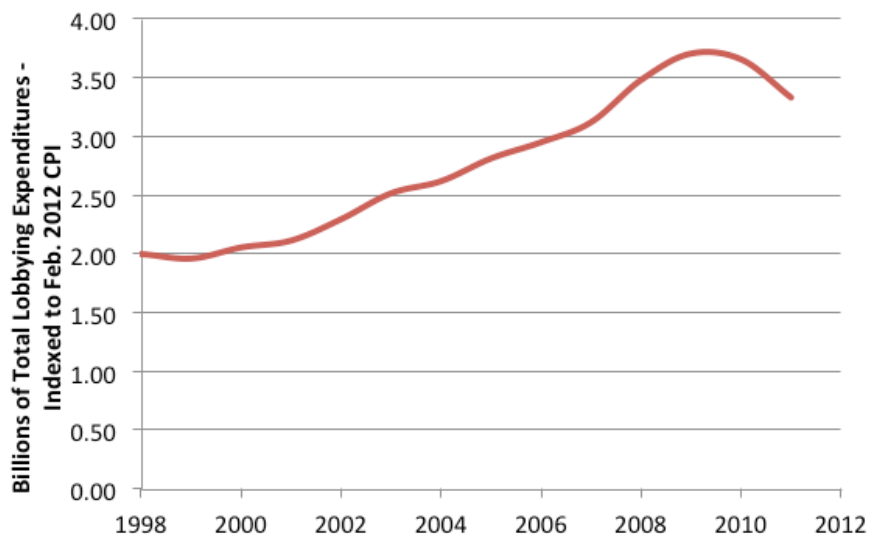
Cronyism is not unique to the present administration. The revolving door between Wall Street and the Department of the Treasury apparently has been turning for the

38. Pew Research Center, *The People and Their Government*.

past three administrations and probably longer.³⁹ The George W. Bush administration created green energy subsidies, and strenuous lobbying by interest groups is ages old. By some measures, though, the lobbying activity has risen recently. Figure 6 displays one such measure from the Center for Responsive Politics, which collected data based on disclosure reports filed with the Secretary of the Senate’s Office of Public Records. Lobbying firms are required to provide a good faith estimate of all lobbying-related income. The figure shows total reported lobbying expenditures in 2012 dollars. Though there are surely more ways to influence government than through lobbying firms, these data measure a part of recent efforts.

The strong upward trend in these expenditures is clear, though there was a small dip from 2010 to 2011. The dip is somewhat puzzling since government influence continued to grow, though it seems likely to be due to the severity of the recent recession. Still, this lobbying measure increased by more than 50 percent in the past decade, from just over \$2 billion to well over \$3 billion. It does not seem coincidental that the size and scope of the federal government also grew during this time period.

FIGURE 6: REPORTED LOBBYING SPENDING, BILLIONS OF 2012 DOLLARS, 1988–2011



Source: Center for Responsive Politics, Lobbying Database, <http://www.opensecrets.org/lobby/index.php>.

VI. IS A "DEATH SPIRAL" POSSIBLE?

GAREN AND CLARK discuss the possibility of a negative spiral in the size of government and trust in government.⁴⁰ In their framework, a powerful government

39. See Wachtel, Katya, "The Revolving Door: 29 People Who Went From Wall Street to Washington to Wall Street," *Business Insider*, July 31, 2011. <http://www.businessinsider.com/wall-street-washington-revolving-door-2011-4?op=1>.

40. Garen and Clark, "Trust and the Growth of Government."

that solicits special interest support distorts the allocation of resources away from productive effort and into political/lobbying activity, creating a crony regime that caters to special interests, slows economic growth, retards the advance of the average citizen's welfare, and engenders mistrust in government.

If a crony regime induces the public to withdraw its cooperation with government, then government initiatives will be less effective, including productivity-promoting government activities such as property rights protection and contract enforcement. Economic productivity will decline, implying diminished returns to productive effort and inducing a substitution into political/lobbying activity.

The increase in political activity spirals into another round of slowing economic growth, a drop in trust of and cooperation with government, declining productivity, and more substitution into lobbying. These outcomes are mutually reinforcing. Thus, a seemingly small movement toward cronyism can generate a multiplier-like effect that perpetuates even more cronyism. The possibility of drastic reductions in trust in government, government effectiveness, and economic growth seems quite real.

VII. CONCLUDING REMARKS

WHEN GOVERNMENT BECOMES a vehicle for soliciting and rewarding interest groups, the society is headed down the road to cronyism and its regrettable consequences: mistrust in government and other institutions, economic stagnation, and social discord. Is the United States heading down this path? The literature explored in this essay shows that mistrust in government in the United States is closely associated with the timing of government expansion, and there are indications that these expansions are affiliated with rent-seeking and cronyism. This and other evidence surely caution that the United States has drifted uncomfortably far down the road of cronyism.

Fortunately, many citizens seem to recognize this problem. The Pew findings indicate that people are increasingly dissatisfied with the government's performance, advocate cutting government programs, and prefer a smaller government with fewer services to a bigger government with more services.⁴¹ Also, despite widespread mistrust of business, survey respondents generally agree that the government has gone too far in regulating business and in interfering with the free enterprise system.

One hopes that policy makers and political leaders will get these messages and act upon them. The literature indicates that the practice of good government can restore the public's trust, but our political and electoral processes tempt politicians to cater to special interests at every turn. It seems that a sensible starting point to achieve good government is to narrowly focus its aims. This goal cannot be achieved by embracing cronyism-style governance.

41. Pew Research Center, *The People and Their Government*. Note, though, that individual responses to these surveys may reflect a free-rider problem in that people want the overall size of government reduced, but may wish to save the programs that benefit them personally.

APPENDIX: FURTHER READING

Negative Consequences of Government Cronyism

For further reading on the negative consequences of government cronyism, see the classic work of Gordon Tullock, “The Welfare Costs of Tariffs, Monopolies and Theft,” *Western Economic Journal* 5, no. 3 (1967): 224–232. See also Anne Krueger, “The Political Economy of the Rent-Seeking Society,” *American Economic Review* 64, no. 3 (June 1974).

For a discussion on the effects of rent-seeking on economic growth, see Kevin M. Murphy, Andrei Shleifer, and Robert Vishny, “Why Is Rent Seeking So Costly to Growth,” *American Economic Review* 83, no. 2 (May 1993).

For an analysis of the influence of rent-seeking on the rise and decline of nations, see Mancur Olson, *The Rise and Decline of Nations* (New Haven, CT: Yale University Press, 1982).

For rent-seeking in the context of international trade and tariffs, see Jagdish Bhagwati, “Directly Unproductive, Profit-Seeking (DUP) Activities,” *Journal of Political Economy* 90, no. 5 (October 1982).

For an early survey, see Robert Tollison, “Rent Seeking: A Survey,” *Kyklos* 35, no. 4 (1982).

Importance of Trust in Government

For further reading on the importance of trust in government, see Joseph S. Nye, Jr., Philip D. Zelikow, and David C. King, eds., *Why People Don't Trust Government* (Cambridge, MA: Harvard University Press, 1997); James D. Hunter and Carl D. Bowman, *The State of Disunion: 1996 Survey of American Political Culture, Vol. 1: Summary Report* (Charlottesville, VA: University of Virginia, 1996); Mark E. Warren, ed., *Democracy and Trust* (Cambridge, UK: Cambridge University Press, 1999); Russell Dalton, *Democratic Challenges, Democratic Choices: The Erosion of Political Support in Advanced Industrial Democracies* (Oxford, UK: Oxford University Press, 2004); Peri K. Blind, “Building Trust in Government in the Twenty-First Century: Review of Literature and Emerging Issues,” UNDESA, November 2006; Marc Hetherington, *Why Trust Matters: Declining Political Trust and the Demise of American Liberalism* (Princeton, NJ: Princeton University Press, 2005); Susan J. Pharr and Robert D. Putnam, eds., *Disaffected Democracies: What's Troubling the Trilateral Countries* (Princeton, NJ: Princeton University Press, 2000); Geoffrey Brennan and James M. Buchanan, “Voter Choice: Evaluating Political Alternatives,” *American Behavioral Scientist* 28 (November/December 1984): 185–201; and Geoffrey Brennan and James Buchanan, “Is Public Choice Immoral? The Case for the ‘Nobel’ Lie,” *Virginia Law Review* 74, no. 2 (1988): 179–189.