

California's Cronyism In Politics And Big Tech Killed The State

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Crony capitalism is an economy in which businesses thrive not as a result of risk, but rather as a return on money amassed through a nexus between a business class and the political class. This is done using state power to crush genuine competition in handing out permits, government grants, special tax breaks, or other forms of state intervention.

– [Wikipedia](#)

If the goal of public policy is to optimize the role of government, cronyism must be identified and curbed wherever possible. Cronyism wastes the limited resources of governments, at the same time as it reduces the efficiency of the private sector by using subsidies and other incentives to undermine healthy competition.

The harm caused by crony capitalism can best be illustrated by example. In California, cronyism is a major culprit in one of the worst policy failures in recent decades: the housing and the related homeless crisis. Several types of cronyism played into California's housing debacle. The most significant was cronyism that took the form of regulations that favored the wealthiest, most established corporations, while driving the smaller, emerging competitors out of the housing business entirely.

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SAN CARLOS, CA - JUNE 30: Tesla Motors vehicle

technicians stand under a Tesla Roadster after a news conference with California governor Arnold Schwarzenegger June 30, 2008 at Tesla Motors in San Carlos, California. Governor Schwarzenegger announced that electric car company Tesla Motors will build a new manufacturing facility in California to manufacture its all-electric Tesla Roadster. The \$109,000 2009 Tesla Roadster zero emissions vehicle is capable of traveling nearly 250 miles on a single charge and is capable of going 0-60 miles per hour in 3.9 seconds. (Photo by Justin Sullivan/Getty Images)/[caption]

This form of cronyism through regulations was originally described by [Bruce Yandle](#), now with the Mercatus Center, back in 1983. Yandle, writing for the American Enterprise Institute, coined the phrase "[Bootleggers and Baptists](#)," to describe an unlikely alliance that formed during prohibition. For the bootleggers, who profited from the trade in expensive illicit liquor, it was in their interest to support the temperance movement's Baptist activists, who lobbied against legislation to restore affordable legal booze. This concept applies perfectly to California's punitive legislation that restricts land development.

For the past 30-40 years, and especially in the last decade or two, a growing assortment of [laws and regulations](#) have driven control over all major land development into the hands of a shrinking group of very large corporations. Using Yandle's analogy, these are the bootleggers. Smaller landowners and construction companies have to sell out or subcontract to these large corporations, because there is no way they can afford the thousands or millions of dollars in fees and litigation, nor the years or decades of regulatory delays. And the Baptists in this example? The environmentalist lobby and its army of trial lawyers, who have seen to it that housing is restricted to ever smaller slices of California's otherwise vast reserves of land, at the same time as they've successfully promoted building codes that make building a home far more expensive than it would otherwise cost.

California's homeless crisis is certainly caused in part by unaffordable housing, but it is exacerbated by another type of cronyism, "nonprofit cronyism." These are rent seeking nonprofits that develop scandalously expensive "permanent supportive housing" for the homeless. In Los Angeles today, apartments for the homeless – palatial abodes by any reasonable comparison to the squalor of living on the streets – are being constructed in some cases for as much as a [half-million per unit](#). The government pays a portion of these costs through grants, using taxpayers money, while other funds are secured through tax deductible donations. And when these units actually are opened to a microscopic fraction of the homeless population, because they are owned and managed by nonprofit corporations, they pay no income or even [property taxes](#).

Crony capitalism in its most obvious form is exemplified by massive public works projects of dubious value to society. California's grandiose and possibly doomed [high speed rail project](#) is the classic example. Even if the final project is restricted to the segment from Merced to Bakersfield, tens of billions will have been spent on a project that never passed any reasonably unbiased cost/benefit analysis, which is why it never attracted matching funds from the private sector.

There are plenty of similar examples. One noteworthy case of a massive, and dubious public work, is the costly rebuild of San Francisco's Transbay Terminal, which for over 50 years had functioned as the central bus terminal connecting downtown San Francisco with other points in the city as well as routes extending into neighboring counties. In 2010, the terminal was demolished to make way for an expanded, "multi-modal" transit hub for the 21st century. Not only would a new tunnel bring commuter trains into the rebuilt terminal from the existing Caltrain station, 1.3 miles away, but the new terminal would also serve high speed trains.

The probable demise of high speed rail hasn't diminished enthusiasm for the project which in total is estimated to cost around \$10.0 billion. Yet the design of the station itself, already mostly complete at a cost so far of \$2.1 billion, is no longer considered sufficient to handle the projected volume of commuter trains. After eight years of construction, the new terminal opened for bus service in 2018 – essentially performing the same service as the old terminal – and then shut down a few months later because of structural defects. Nobody knows when it will reopen. And even when it does reopen, [trains won't be arriving](#) until the \$6.0 billion connecting tunnel is completed, sometime around 2029.

The enthusiasm that informs persistent supporters of dubious projects, which would certainly include high speed rail and San Francisco's Transbay Transit Center, brings into focus one of the central questions about crony capitalism. How does one distinguish between a project of dubious value, and one of compelling value? [Paul Rubin](#), a professor of economics at Emory University, expresses this question in his own humorous but revealing [alternative definition](#) of crony capitalism: "Crony capitalism is lobbying by someone I don't like for something I don't like."

This question of one person's good cronyism being another person's bad cronyism is easily recognized in the allocation of subsidies to manufacturers. Ideally, there should be a level playing field between market participants. The government shouldn't be, as they say, "picking winners." To choose another obvious example, California's legislature is determined to increase the number of zero emission vehicles in the state, via rebates, incentives and mandates. The [cost to taxpayers](#) – and benefit to manufacturers of electric vehicles – over the next ten years is estimated to range between \$9.0 and \$14 billion.

But what if electric cars aren't an unmitigated good thing, so good they are worthy of subsidies? What if electric vehicles produce illusory environmental benefits? What if the embodied energy in an electric car, far exceeding that of a conventionally powered car, represents an environmental cost that isn't made up for during its useful, zero emission life? What if the

environmental costs of recycling these cars and their massive batteries, or the environmental costs of extracting the resources needed to manufacture these batteries in the first place, represent an unrecoverable environmental cost? What if the emergence of some even better, cleaner transportation technology is being suppressed by the proliferation of subsidized electric cars?

This sort of debate surrounds any subsidized product. And it is fair to say that sometimes subsidies are necessary. But in crony capitalism, those debates are hijacked and skewed by the special interests in the private sector with the strongest connections to government policymakers.

There are myriad forms of crony capitalism. Incentives offered by California's state and local governments for manufacturers to relocate to California, or stay in California, have cost taxpayers billions. [A report](#) published last year in the San Jose Mercury described how public money subsidies have poured hundreds of millions to Silicon Valley giants including Google (\$766 million), Facebook (\$333 million), Apple (\$693 million), and Tesla (\$3.5 billion).

These sorts of arrangements repeat themselves across California, and while there is an economic payback to keeping those companies and their jobs in-state, there is also a great irony. California is consistently ranked as the [worst state in the U.S.](#) to do business. Why not change the laws and regulations that make California such an unwelcoming place, which would help retain and attract all businesses, instead of pouring compensatory money into the hands of a favored few?

Speaking of the favored few, another problem that consistently accompanies crony capitalism is that it usually benefits the cronies more than it benefits whatever deserving group or cause the deal supposedly supports. The environment and open space is protected – or overprotected – enabling rich developers to get richer, and nobody can afford homes. Palatial “permanent supportive housing” is built for a handful of the homeless, while well-heeled nonprofits collect subsidies that could have been used instead to house tens of thousands of homeless using tents and porta-potties. Billions are poured into monumental, landmark, “signature” transportation projects, while ordinary people sit in traffic on pitted, congested, inadequate roads. Taxes are raised so wealthy people can save money on electric cars that remain priced well out of reach of an ordinary Californian. High tech corporations earn hundreds of billions for their shareholders, yet taxpayers support subsidies to keep them from pulling up stakes and moving to Texas.

Finding examples of crony capitalism is an endless task, somewhat shrouded in ambiguity and contradictions. Whenever the government interferes in the “free market,” a subjective assessment is made that the interference is in the public interest, and an even more fraught decision is made to undermine one set of private concerns while creating an advantage for another. Apart from the the impossible extremes of anarchy or communism, good governments have to find that balance in between.

In California's case, there is a great deal of room for improvement. Support efforts to increase transparency in contract negotiations and contract oversight to expose and deter overt cronyism. Recognize that the impact of environmental regulations has crippled the aspirations low and middle income Californians, and repeal them, starting with the most extreme. Pay attention to the reports that expose the waste and corruption surrounding attempts to house the homeless. Fight for precedent setting court rulings that will make it easier and less costly to get things done – from building homeless shelters to constructing new roads and related housing infrastructure. Repeal CEQA; there's plenty of regulation at the federal level. Most of all, make the state's regulatory climate more inviting so it's easier to keep and attract *all* businesses.