

# POLITICAL ECONOMY

## IN THE CAROLINAS

### CALCULATION AND CORPORATE TAX INCENTIVES

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**A**mazon's HQ2 campaign drew both large support at the possibility of job creation and backlash for perceived cronyism. In this paper we evaluate corporate tax-incentive policies in light of the Austrian contribution to the problem of economic calculation. In doing so we highlight the contextual nature of the knowledge problem associated with policy packages and the potential cronyism arising from such a problem. We argue that because political decision-makers lack the knowledge generated via competition in the market process, they are unable to allocate resources in a way that achieves economic growth. In place of this knowledge, through the political process they tend to gain knowledge, which helps them respond to political incentives and rent-seeking behavior by special interest groups.

#### **KEYWORDS:**

market process, economic calculation, knowledge problem, corporate tax incentives, rent-seeking

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*“We rarely agree with socialist Congresswoman-elect Alexandria Ocasio-Cortez, but she’s right to call billions of dollars in taxpayer subsidies for Amazon ‘extremely concerning’. These handouts to one of the richest companies in the history of the world, with an essentially zero cost of capital, is crony capitalism at its worst.”*

-Wall Street Journal Editorial Board (2018)<sup>1</sup>

## I. INTRODUCTION

The preceding quotes provide a good picture of arguments often made for and against corporate tax incentives. The arguments themselves are based, ostensibly, on good intentions since both are plausible. On the one hand, when money is used to accomplish some particular goal (creating jobs) it can succeed. On the other hand, politicians’ ability to give multibillion-dollar tax incentives provides ample space for political exchanges, which bestow concentrated benefits on well-informed special interest groups at the expense of ill-informed taxpayers, who bear the dispersed costs. Despite the truth in each of these claims, there is a glaring omission in both. Neither argument directly addresses the solution to the *economic* problem whereby resources are allocated to their most valued uses. But both of these arguments can be examined and evaluated in terms of the problem of economic calculation.

The purpose of this paper is to consider the ability of corporate tax incentives to accomplish identified objectives in light of politicians’ inability to engage in economic calculation. Economic calculation refers to a competitive process whereby resources are allocated to their most highly valued uses. This process is generated in the marketplace

by entrepreneurs who are lured by expected profit opportunities and disciplined by expected losses (Kirzner 1973).

While Amazon has drawn particular attention in the state of New York and the commonwealth of Virginia, our argument pertains to the Carolinas as well. Amazon recently declined the North Carolina Triangle Region’s \$2.2 billion incentive package offered to bring HQ2 to the area. While many mourned the loss of the potential HQ2, the analysis offered here paints a brighter picture of the state’s inability to attract Amazon. By not needing to fulfill the promise of tax incentives, North Carolinians will avoid an unknowable opportunity cost. Citizens will not be required to support wealth-destroying jobs. Moreover, a potential instability associated with individuals’ declining confidence in the rule of law has been avoided. Finally, the non-intervention will also prevent the diversion of profit opportunities from productive to unproductive entrepreneurship. Although the benefits of nonintervention are hidden and dispersed, they are not totally unknowable. Our paper provides good reason for Carolinians and all others who “lost” the Amazon deal to celebrate the economic opportunities that exist in its stead.

In order to gain a full appreciation of how corporate tax incentives for Amazon relate to the problem of economic calculation, we start by discussing the problem of economic calculation in light of the socialist calculation debate. Ludwig von Mises ([1920] 1975) originally developed the critique that there could be no rational economic calculation within the institutional setting of socialism.<sup>2</sup> Outside the context of exchangeable

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1. As this quote illustrates, the terms “corporate tax incentives” and “subsidies” are often considered synonymous. However, Rothbard ([1970] 2009, 1218–21) effectively differentiates the two concepts. We agree with this differentiation, and we emphasize that corporate tax incentives are a different means whereby politicians encourage companies to take actions they would not otherwise take. In this way the policies are used to pick winners, as will be discussed throughout the paper.

2. Mises points out that because socialist economies lack private ownership of the means of production, there is no market in which the latter are exchanged. Without a market, there can be no monetary prices for the means of production. Finally, without monetary prices it is impossible to engage in rational economic calculation regarding the alternative uses of scarce capital goods.

private property rights, there are no market prices. Without prices, central planners would have no way to obtain the knowledge necessary to determine how to allocate capital to its most valued uses. This is because outside the context of private property, such economic knowledge embodied in market prices and profit-and-loss signals does not exist. Hayek (1940, 1945) further developed this critique by emphasizing the role prices play in the transmission and use of knowledge. Boettke (1998, 132) restates the Mises-Hayek position on the problem of economic calculation as one of discovering *contextual* knowledge and draws attention to its importance as “the contribution of twentieth-century Austrian economics to the discipline of political economy.” As Boettke and many other economists recognize, however, the relevance of the question of economic calculation extends far beyond the socialist calculation debate.

In recent years there has been a deeper existential question posed by politicians and citizens in the United States regarding the ability of a free market to continue to provide economic growth. At the extreme, some have renewed calls for the socialist system of economic organization Mises and Hayek criticized. There are also seemingly less extreme yet more pervasive calls for engineering of the economy via incentives. Plans to grow the economy by creating jobs through tax incentives have been created and executed at the national and statewide levels. The latter policy type can be described as a sort of “noncomprehensive planning.”

Despite the plans’ promises of growth, it’s not obvious that they engage in economic calculation to solve the economic problem. Thus, a proper understanding of economic calculation is needed to address national and state tax-incentive plans such as those associated with Amazon’s HQ2. This paper contributes to a large literature that applies the calculation argument to noncomprehensive

planning in general. Lavoie ([1985] 2016) lays the groundwork for this literature by demonstrating that the socialist calculation debate is relevant to national economic planning. Lavoie specifically discusses reindustrialization plans of both “preservationists” and “futurists” and how the lack of profit-and-loss signals frustrates these approaches. Coyne (2013) and Skarbek and Leeson (2009) show how the success of international aid is limited by the inability of aid organizations to engage in economic calculation. Powell (2005) uses this approach to analyze the East Asian miracle and documents how that growth came about as a result of movement away from central planning. Duncan and Coyne (2013) and Coyne and Hall (2019) consider the calculation argument in the context of noncomprehensive planning in the state provision of defense. Finally, Coyne and Moberg (2015), along similar lines to this paper, address noncomprehensive planning associated with state-targeted benefits.

Our paper builds on this literature by considering the inability of politicians to engage in economic calculation to allocate resources via tax incentives in an economically efficient way. Since politicians do not have residual claimancy, as entrepreneurs do, they lack the knowledge to engage in economic calculation. Accordingly, the opportunity cost of the technical goals they are pursuing is not known. We contribute further by analyzing the fact that policy packages (such as the HQ2 policy) are implemented by a single authority and therefore their profitability is not subject to the same sort of contestability present in the market. We then highlight this point with a thought experiment that posits competing corporate tax-incentive policies. Lastly, we examine the knowledge that is discovered in the political process and how it leads to the arguments regarding cronyism often associated with such policies. In doing so, we demonstrate how these arguments,

though important, follow from a more fundamental problem regarding the inability to engage in economic calculation.

The rest of the paper is structured as follows. Section II expounds upon the knowledge problem in corporate tax-incentive policies. Section III discusses the public choice implications of discovery in the political process as opposed to the market process. Section IV concludes with implications for incentive policies concerning Amazon's HQ2 and related policies.

## **II. THE KNOWLEDGE PROBLEM OF CORPORATE TAX-INCENTIVE ALLOCATION**

In order to gauge the success or failure of any government program, there must be a standard to which we compare it. One option is to take the goals of each program as stated and consider whether the means are sufficient to accomplish those goals. In the case of Amazon HQ2 and corporate tax-incentive programs generally, proponents often make several related claims.

One of the most common claims by politicians is the increasing number of jobs that could come as a result of the program.<sup>3</sup> The above quote by Mayor de Blasio is an oft-repeated refrain regarding these sorts of incentive schemes. The logic often goes that by offering competitive packages for corporations, they will invest heavily in the area and create long-lasting opportunities for the taxpayer that more than make up for the cost of any incentives offered to the company. These goals frequently go hand-in-hand with noncomprehensive industry-cluster plans that leverage metaphors such as “a new Silicon Valley” to illustrate a vision of a region built on the foundation of abundant high-paying jobs.

However, programs aren't often marketed on the basis of jobs alone. Often proponents contend that as a result of the new jobs in the region, the economy will grow. In a press conference regarding Amazon's HQ2 decision on New York, New York governor Andrew Cuomo echoed this sentiment, saying, “This is the largest economic development initiative that has ever been done by the city or the state or the city and state, together” (Soper, Brady, and Goldman 2019). Economic growth can then be considered a distinct but inextricably related goal on the basis of which success or failure can be determined.

One last associated goal is industrial robustness. Corporate tax-incentive policies can, on this view, be used to either preserve an existing industry viewed as vital or to accelerate the region's movement into futuristic industries that establish economic security for the years ahead. This is related to Lavoie's ([1985] 2016, 199) aforementioned distinction between “preservationist” and “futurist” goals. In this case, politicians attempt to act as entrepreneurs speculating on the success of industries. The futurist take is captured by a press conference in which Governor Cuomo argued in favor of the incentives on the basis that “Amazon is the technology of the future.” He continued, “Either you are part of the economy of tomorrow, or you are a part of the economy of yesterday” (Raskin, 2019).

We first consider the goal of jobs alone. Empirical arguments can be made about whether any given policy creates jobs on net. For example, analyses considering factors such as crowded-out employers can estimate net job creation. Note that there is no reason to rule out a priori the possibility

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3. Here and henceforth when we refer to politicians attempting to increase the number of jobs, we refer to attempts to increase expected employment and not to increase the number of potential jobs. Following Alchian and Allen ([1977] 1983, 304–5), we acknowledge the number of potential jobs is unlimited (see also Alchian 1969).

of job creation due to corporate tax incentives. Job creation is a technical problem. As with any *technical* problem, redirecting resources to the creation of an output creates more of that output.<sup>4</sup> Concretely, we can think of plenty of programs likely to result in job creation. Allocating resources to pyramid building or window breaking will lead to the creation of more jobs in architecture and window repair, respectively. In this sense the means of corporate tax incentives are sufficient to bring about the technical goal of job creation. However, this technical problem should not be mistaken for the *economic* problem of calculating the opportunity costs of scarce resources allocated to competing ends. Stated differently, the process of economic calculation, driven by profit-seeking entrepreneurs, tends to sort land, labor, and capital from a set of *technologically* viable projects those projects that are *economically* viable.

To illustrate this distinction, let us consider the production of railroads, as did Mises ([1920] 1975, 108–109; [1922] 1951, 121–122). An entrepreneur can choose between producing railroads made from platinum or iron. Generally speaking, however, we tend to see railroads built with iron. From a technological standpoint, it makes sense to produce railroads with platinum, given that it is a harder, more durable metal than iron. Why, then, are railroads not built with platinum? One might say, correctly so, that price of platinum is higher, and therefore entrepreneurs will tend to use less platinum in the production of railroads. But this introduces another question: where do the money prices come from? Such money prices are generated by entrepreneurs bidding for scarce platinum from owners of platinum and redirecting such platinum towards uses that are higher valued by consumers than the production of railroads.

Herein lies the fundamental lesson of economic calculation: *within a context of private ownership of the means of production, it is only through the act of exchange that consumers' subjective valuations of scarce resources are communicated to entrepreneurs as economic knowledge through the price mechanism.*

The price mechanism serves a twofold role. First, prices serve an *ex ante* role of guiding expectations about the profitability of a productive activity. Second, prices serve an *ex post* role of assessing previous economic decisions, through profit-and-loss accounting, to determine whether in fact inputs were allocated to their most valued use (Boettke and Candela, 2017). However, economic calculation is predicated on the idea that entrepreneurs are residual claimants to their decision-making, and therefore respond to the economic knowledge embodied in prices and profit-and-loss accounting. Therefore, if entrepreneurs accrue profits, such knowledge will incentivize them to produce more of a good or service, whereas if entrepreneurs sustain losses, they will learn to adjust and curtail their production and redirect resources to more valuable uses. Given that political officials are not residual claimants to their decision-making, resources will be misallocated through the political process. This is not because political officials are malevolent, but because they are precluded from capturing profits and absorbing losses and therefore cannot respond, as entrepreneurs do, to informational signals embodied in money prices. Instead, as we discuss below, political officials respond to the knowledge made available to them in the political setting; more specifically, they learn how to allocate rents to special interest groups that value them the most in exchange for votes.

Recall that the economic problem is distinct

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4. We can visualize this is through a simple production possibilities frontier, whereby more of good “Y” can be obtained provided society gives up increasing amounts of all other goods “X”.

from the technical problem in that increasing some particular output comes at the opportunity cost of what could have been done with the resources used to increase that output. In this case, job creation as a goal comes at a cost. Since resources are scarce and can be used as means for competing ends, merely maximizing some technical output is not sufficient for creating economic growth. Entrepreneurs must also choose an allocation of resources that brings about the economically efficient output that maximizes the value of the output to the individuals in the society.<sup>5</sup> Therefore, there is a problem with considering job creation and economic growth as goals that are always compatible. Because job creation comes at some cost, tax credits and other incentives to corporations may encourage the employment of scarce labor in less valued productive activities that would have otherwise been forgone absent such incentives. Moreover, policy makers cannot claim that the intended goal of economic growth comes about by increasing jobs because it's possible that these two goals are antithetical to one another. Deeper still, without residual claimancy in their decision-making, policy makers cannot know all of the information (tacit and explicit) necessary to determine when resources have been allocated to their highest-valued use. They are unable to determine whether and when corporate tax-incentive-based job creation is worth the opportunity cost (that is, whether and when it is consistent with economic growth). A decision to move toward more “futuristic” industries will face the same sort of knowledge problem.<sup>6</sup>

In the free market, the competitive process characterized by entrepreneurial discovery of previously unnoticed profit opportunities acts as

a means of solving the knowledge problem. The central role of the entrepreneur in the market has been elucidated by Mises (1949) and Kirzner (1973, 1985). Kirzner emphasizes how prices in the context of the market system transmit information to alert agents. When resources are misallocated, there is a price discrepancy. By discovering and subsequently exploiting the discrepancy, they make a “pure gain” or profit. Since the entrepreneur is the residual claimant to profit, they have an incentive to discover the misallocation of scarce resources. Therefore, economic growth and the knowledge necessary to achieve it are woven into the fabric of the market process. Ventures that misallocate resources and reap losses instead of profits are consequently abandoned.

This process does not operate symmetrically in public policy decision-making though. Prices are analogous to a telephone cord through which consumer demands are communicated to entrepreneurs, who allocate land, labor, and capital accordingly. However, in the political process, this cord that transmits knowledge to producers from consumer demands is severed between policy makers and voter demands. DeCanio (2013) contrasts the different mechanisms of knowledge transmission associated with the market process and political process. DeCanio argues that the market process mimics scientific experimentation in that several types and iterations of the same good are pitted against one another and success is determined by profit-and-loss calculations. The political process does not resemble experimentation, because government retains exclusive authority over the production of policies. Because of this, citizens neither have the knowledge to effectively compare counterfactual

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5. We can think of this “economic efficiency” as a specific point on the production possibilities frontier.

6. This is dealt extensively by Lavoie ([1985] 2016) wherein he provides evidence of political decision-makers being unable to identify which industries and businesses would be successful in the future. Even if it were possible for policy-makers to make correct selections about which industries would be successful in the future, it does not follow that spending resources to develop that industries in a particular region would be worth the forgone alternative resource uses.

technical proposals for the production of the same good nor can they successfully determine whether the production of a good is itself an efficient use of resources. Even in the case in which differing policies are adopted consecutively or in different locations, the complexity inherent in the economy renders the situations incomparable. The same is true of choosing not to produce such policies at all. It is impossible to know the counterfactual of what would have happened had a policy been adopted. An economy may grow after the adoption of a policy *in spite* of the policy.

Following DeCanio, we consider a thought experiment through which we can observe the different knowledge problems encountered by voters. We first consider two corporate tax-incentive policy proposals with the goal of creating more jobs. Returning to an earlier theme, we can label one proposal preservationist and one proposal futurist. The preservationist policy seeks to attract firms to the state's existing coal-mining industry. The futurist proposal involves an attempt to lure tech companies to the state. The first problem voters face is the necessity of a great deal of knowledge about how each proposal would increase jobs to determine which does so more effectively. For example, it may be the case that an increase in mining jobs would cause manufacturers to move closer to the mines in order to capitalize on lower raw material transportation costs. Additionally, the workforce in any given state may have more training in either the mining or the tech sector. If this is the case, jobs may have to be outsourced to workers in neighboring states, or capital may be used as a substitute for labor, and any job-increase estimate will be overly optimistic. In order for voters to choose between these policies from a technical perspective, they would have to have extensive knowledge of the effects the attracted industry has on other industries. They would have to know details of the training of the workforce in

their respective states. If the goal was to increase the number of jobs over a certain amount of time (as opposed to an immediate goal of increased jobs today), voters would need to be informed of potential future changes to the industries. Are rival technologies being developed that would make the tech firm in question irrelevant soon? How will the continued relative success of electric cars affect the number of jobs in coal mining? The knowledge associated with these policies and more would be needed for the voter to evaluate the relative technical efficiency of these two proposals.

The problem is exacerbated when we consider the economic problem in the context of exclusive corporate tax-incentive packages offered by alternative parties. Voters cannot determine *ex ante* whether the preservationist or futurist proposal will provide some fixed number of jobs utilizing fewer scarce resources. Nor can they determine whether one policy offers fewer jobs at a more acceptable cost to society. This is in stark contrast to the free market, in which experimentation can occur. If the voters select politicians who opt to provide futurist corporate tax incentives, they must be able to evaluate the counterfactual knowledge about how the preservationist policy would have unfolded in practice. Even if voters feel they have enough knowledge to solve both of these problems, the problem is made more complex by the fact that the mechanism for providing feedback from voters to politicians does not provide clear information about which policies voters like or dislike. This simple thought experiment sheds light on the enormous difficulty associated with solving the knowledge problem in the political process relative to the market process.

### III. THE INCENTIVE PROBLEM IN THE CONTEXT OF POLICY PROVISION

Policy makers are not the residual claimants to

the profits or losses associated with their exclusively provided services. Recognition of this fact leads to several observations. First, politicians must utilize a method of evaluating policies other than the knowledge gained from profit-and-loss accounting. It follows that self-interested political agents may utilize the political knowledge associated with their monopoly on policy production to cater to special interest groups in exchange for political support (Boettke, Coyne, and Leeson, 2007). Second, entrepreneurs and firms respond to profit opportunities created by rents in the form of corporate tax credits. Third, corporate tax-incentive policies inherently violate the rule of law since they involve picking specific winners and losers. This section will examine these three observations in more detail to shed light on the cronyism often associated with corporate tax incentives.

Wagner (1989) emphasizes that the policy maker must be able to do three things in order to improve economic efficiency by correcting market errors. First, they must have knowledge of the market error. Second, they must know how to fix the error. Finally, incentives must be compatible such that the policy maker will be willing to properly implement the correction. Until Buchanan and Tullock's (1962) analysis of politics as exchange, the third condition was mostly ignored by economists. In light of the first two conditions being confounded by the knowledge problem, we have even less reason to expect incentives to be consistent with generating economic efficiency. Instead, politicians may seek to produce policies that help them retain power. Corporate tax-incentive policies fit well into this view of politics.

Following Olson (1965), it is clear that policies such as these provide very visible concentrated benefits. The workers employed by Amazon are grateful to the politicians for creating the policies. Further, those whose assets would appreciate

from the presence of Amazon have an interest in securing its presence. Those who benefit from the newly incentivized company see the benefits plainly. The costs are less visible. It is not clear who specifically loses on net from the presence of Amazon. Some sense that the taxpayer bears the burden of the multibillion-dollar deal, but the cost is dispersed among millions of individuals. Since the forgone alternatives are both unseen and dispersed, it is difficult to imagine a politician being punished more relative to the rewards from special interests. Additionally, Wagner points out that the process of generating information about the success and failure of policies itself is contingent on the institutional setting. Unlike the market, in which losses provide incentives to understand why a project is failing quickly, policy makers may lack an incentive to identify policy failures since they are not residual claimants to their decision-making.

Leeson (2006) points out that even in the case in which some individual politicians have compatible incentives (in this case because they are benevolent), there is reason to believe that they will not behave as though their incentive are compatible so long as there is a possibility that other politicians are not perfectly benevolent. Leeson shows that in order for benevolent politicians to prevent themselves from being selected out of the political process by those who aren't benevolent they must be willing to cater to special interest. This is a complementary point to the voter-preference-extraction problem in democratic systems highlighted by DeCanio. Both points make clear that political institutions select for politicians willing to create rents and attract rent-seekers regardless of the moral character of the agents within the institutions.

Kirzner (1985) criticizes regulation on the basis of how it affects entrepreneurial discovery. Unlike others who critique the effects of regulation, Kirzner contrasts the process by which economic inefficiency is corrected by the market with the

process by which regulation supposedly corrects these inefficiencies. Current inefficiencies are future profit opportunities for entrepreneurs, and government regulation rules out the possibility that all worthwhile discoveries have been made. Not only is regulation potentially unfounded when discovery is considered, but the possibility also exists for it to be harmful.

Policy can act as a barrier to discovery. This is very clear in the case of corporate tax incentives. The fact that Amazon will pay zero state income tax for over a decade and has received grant money significantly reduces the incentive for potential entrepreneurs to enter the market. Any entrepreneur considering entering the market in competition with Amazon in pursuit of an unexploited discovery will now have to compete with a firm whose costs are made relatively lower, serving as artificial barrier to entry. So some opportunities may go unexploited in the face of Amazon's enormous advantage, exemplifying what Kirzner refers to as "the stifled discovery process" (1985, 141). In the place of these productive entrepreneurial discoveries, there may be a tendency for new, unproductive discoveries to be created by government intervention that hampers the market process, namely rent-seeking. Kirzner dubs this category as "wholly superfluous discovery" (1985, 144-145). The artificial barriers created by these policies may also give firms monopoly power, which in turn can lead to further calls for intervention to sustain their monopoly privilege. This observation follows Mises's ([1926] 2011) theory of interventionism. Candela and Geloso (2018) explore this theory of interventionism as it relates to the knowledge generated by the political process and argue that public policy decision-makers are incentivized to seize greater regulatory authority in order to cater to special interest groups. In this way, the dynamics of interventionism are directly related to the

incentive problem in policy provision.

Since government is able to grant monopoly privileges, interference in the market provides new profit opportunities for participants in the capitalist process. Instead of profit calculations being made in the context of benefits to consumers, entrepreneurs now receive knowledge about what is beneficial to politicians, making it more likely that production decisions become based on political demand rather than consumer demand. These unexploited opportunities need not be the intended consequences of regulators. The evolution of corporate tax-incentive competition is a perfect example of this. In providing incentives for Amazon to build its headquarters in their own state, it's unlikely policy makers intended to create a situation whereby jurisdictions publicly compete to be chosen. Political decision-makers offering Amazon tax incentives must now offer increasingly costly incentive packages to "win" the competition. Absent corporate tax incentives, this opportunity for city governments to compete for Amazon's HQ2 would not have existed. The opportunity itself was created by the regulatory process.

The difficulties generated for market decision-makers are compounded when it is recognized that these policies violate the rule of law, since corporate tax incentives involve dealings with the intention of benefiting specific companies at the expense of those who do not receive such corporate tax incentives. In this context, the law serves privileged corporations as opposed to the citizens to whom the law applies. Hayek highlights the importance of the rule of law in saying, "[Rules] are instrumental, they are means put at his disposal, and they provide part of the data which, together with his knowledge of the particular circumstances of time and place, he can use as the basis for his decisions" ([1960] 2011, 220). This point underscores the role rules play in the market economy. Businesses that compete with Amazon cannot properly orient their

competitive decision-making if the rules of the game are constantly changing for Amazon alone. This effect carries into the future since the use of incentives may signal future incentive schemes to get companies to stay. Coyne and Moberg (2015) document several cases in which a corporation reversed its decision to close a certain location because politicians offered it incentives to keep it in operation. Again, politicians may have an incentive to do this to prevent people from learning of policy failure. Boettke and Candela (2014) point out that economic development itself rests on law because of its role in providing the framework whereby all other economic activities are coordinated. Without a proper arrangement of the fifth factor of production (the law), individuals cannot properly coordinate the other four factors (land, labor, capital, and entrepreneurship) in wealth-enhancing ways.

The rent-seeking nature of the political process, the violation of the rule of law, and the consequence of superfluous discoveries made by private companies are recognized by politicians and citizens alike. The very public process of HQ2 made this fact clear. Claims of cronyism and corruption were commonplace after Amazon's selection of New York as one of its two headquarters. The deputy leader of the New York City Council, Jimmy Van Bramer, voiced these concerns when he claimed, "When Jeff Bezos needed \$3 billion the governor and mayor found it sure damn quick. The governor and the mayor conspired secretly to cut a deal with Bezos to the exclusion of everyone else. This is the ultimate case of 'three men in a room'" (Raskin, 2019). The scrutiny in New York was so intense Amazon rescinded its acceptance of New York's offer.

The public choice approach coupled with the Austrian account of the entrepreneurial market process and an analysis of the effects of violations of rule of law explains the effects of alleged

cronyism well. It's important to recognize that this cronyism has its ultimate source in the knowledge problem. Since politicians and voters cannot fully absorb the profits and losses of policies, they cannot calculate the opportunity cost of the monopoly production of policy. They therefore pursue their own self-interest on other margins (catering to special interest groups). Fundamentally, an inability to engage in economic calculation is at the core of why cronyism results from corporate tax incentives.

#### **IV. CONCLUSION**

Understanding economic calculation is central to understanding the effects of offering corporate tax incentives to companies such as Amazon. Voters face a knowledge problem in assessing the economic efficiency of alternative policies. This knowledge problem, coupled with the inadequate feedback mechanisms associated with the political process, means that it is unlikely that policies will be selected that maximize the economic efficiency of any stated goal. However, because job creation is a technical problem of allocating resources to achieve a pre-defined goal, nothing prevents authorities from producing more jobs by using more resources. An implication for voters and politicians, due to the difficulties above, is that one should be aware that the best policy, economically speaking, is one that allows firms to compete for profits in the market process, not for tax incentives through the political process.

Fundamentally, the stated goal of job creation is separate from (and even antithetical to) economic growth. Since political actors lack the ability to engage in profit-and-loss accounting, they suffer from a knowledge problem about the opportunity costs of policy proposals and are therefore unable to determine the policies' impact on economic efficiency and growth. Though technical improvements are likely to come about when more

resources are used, there is no reason to think corporate tax incentives bring about economic improvements. The policy implication here is clear. Any voter or politician concerned with economic growth should be careful when considering any policy sold as creating economic growth by “adding more jobs” or some other technical goal.

Because politicians are not the residual claimants of profits and losses in the marketplace, they implement policies that generate political profits by concentrating benefits on well-informed and well-organized special interest groups and dispersing costs on ill-informed and ill-organized masses of voters. Information about policy failure tends not to be generated, as politicians have little incentive to absorb this information. Rent-seeking therefore is commonplace regardless of the moral character of the politicians. Intervention into the market process by political actors causes further distortions by creating previously nonexistent profit opportunities that can be discovered. This discovery is “wholly superfluous” and may serve to distort both the market and political processes even more. The violation of the rule of law inherent in corporate tax incentives further hinders the market process by confounding the plans of individuals. Economic growth is severely impeded when the rule of law is undermined. This leads to a third implication for voters and policy makers. The fact, commonly proclaimed, that cronyism “pollutes the political process” is not the result of weak political oversight. Rather, since the incentive issue stems from the problem of economic calculation, rent-seeking itself is a natural part of the political process. So long as there is monopoly policy production, there is cronyism, as entrepreneurs compete for privileges in the form of tax credits, subsidies, and other privileges that shield them from market competition. Voters and politicians should be aware of these omnipresent incentive issues when choosing which policies to support.

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