



Welcome to the Age of Political Capitalism

Welcome to our regime of political capitalism, where merit matters but political connections matter even more. In an unalloyed capitalist system, money flows to those who offer goods and services of value to consumers. In a political capitalism system, money flows to special-interest groups with friends in high places.

In his 2018 book, “Political Capitalism,” Florida State University economist Randall Holcombe defines it as a regime marked by cooperation between political and economic elites for their mutual benefit at the expense of the masses. Among the benefits pursued by elites, of course, is maintenance of their positions of power.



Veronique de Rugy

The Occupy Wall Street (OWS) movement was borne from opposition to political capitalism. Indeed, OWS members rightly sensed that financial bailouts and the Federal Reserve’s rescue of the banking system during the Great Recession were products of a system favoring politically connected bankers and their friends in Congress. OWSers denounced the recipients of government favors as the “1%” and contrasted them with the “99%” who were often left to shoulder the high costs of such policies.

What the OWS movement failed to see, however, is that it’s not just Wall Streeters who are favored by the political capitalist regime. This broad organizing force underpins most government spending and regulatory decisions.

Consider the export subsidies that have been around for decades. These handouts mostly benefit the same giant manufacturers, like Boeing and GE, that were the main beneficiaries decades ago. It doesn’t matter which party is in power: Big exporters will collect their largesse and express their gratitude to friends in Congress with campaign contributions and votes. This is why the Wall Street Journal’s Andy Kessler calls this crony system “Kickback Capitalism.”

Once you understand how political capitalism works, it becomes obvious that it drives most decisions in Congress. For decades, sugar subsidies have benefited the same small group of wealthy sugar-beet farmers and processors through an unholy alliance with politicians that goes far beyond who happens to be in power in Washington, Florida or Louisiana.

The CHIPS and Science Act, passed last year, is another episode of politicians granting favors to their friends in the semiconductor industry. The previous episode took place in the 1980s and ran through the 1990s.

The COVID-19 era’s \$54 billion in airline bailouts were allegedly granted to avoid the layoff of some 30,000 airline employees. Yet during that same time, Regal Cinemas announced the temporary closure of all 536 of its U.S. locations and furloughed 40,000 employees. There was no one in Congress calling for a special Regal bailout (thankfully). The simple reason is that the airline bailouts were not about



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airline employees as much as they were a means of granting a favor to airline shareholders who have many friends in Congress.

Maybe the most striking example of political capitalism took place during the Trump administration, on live TV no less. Back in March of 2018, President Trump hosted a “listening session” with steel and aluminum executives he had invited to the White House. The whole thing was televised, allowing us to see Trump joking around with his CEO friends while they pleaded for government support for their industry. The head of Nucor, for instance, told the president how his 25,000 employees would really benefit from steel tariffs imposed on American buyers of steel. And just like that, those of us watching saw in real time the president grant Nucor’s demand.

These are the same steel companies that will benefit from the semiconductor subsidy requirement that recipients of the government handout use domestic steel to build production facilities.

Political capitalism isn’t restricted to companies. Other elite groups benefit too. Student-loan forgiveness can be seen as a gift from the Biden administration to tomorrow’s economic elites and to today’s young voters. Last year’s infrastructure bill, with all its requirements, is rightfully seen as a handout to unions. Unions are great political allies, always among the top political contributors during elections.

The strong relationship between teacher unions and politicians in Congress helps explain the billions of dollars that went to public schools during the pandemic, even though most students were kept at home to receive subpar educations and large doses of anxiety.

From sugar and steel consumers to students who already paid off their loans or used their savings to pay for their education, political capitalism punishes those who aren’t elite or can’t organize to extract favors from politicians. Sadly, it gives a bad name to both politics and capitalism.

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