Trump, Carrier, and the Corporate State

Man, it's hot out there! Should free-market advocates applaud the deal Donald Trump brokered to keep some Carrier jobs from being transferred to Mexico? I believe the right answer is no.
A virtue of the market process is precisely its impersonal nature. People are free to engage in exchanges subject only to the freedom of others to refuse offers they do not like and to make competing offers. The constraints that this freedom produces are called *market forces*. (See my "Market, State, and Autonomy.") In a freed market no one could make arbitrary decisions on a large scale the way government can in a managed economy (whatever its precise form) because no one can command others to obey on pain of imprisonment or worse.

The Trump-Carrier deal represents something different. Having been reminded of his vow to stop Carrier from moving a manufacturing facility to Mexico, the man who is about to take control of the powerful executive branch intervened in disclosed and undisclosed ways. The deal reportedly consists in $6 million in Indiana tax relief over 10 years and $1 million in direct grants. (The vice president-elect, Mike Pence, is still the governor of Indiana. Characteristically, Trump exaggerated the number of jobs saved, just as he fibbed about his election being the reason SoftBank was investing in the United States.) But we also know that during the "negotiations" Trump invoked Carrier parent United Technologies' status as a major military contractor. What threats or promises were made with respect to future government contracts? We don't know, but the *IndyStar*'s sources say that factor played a larger role in the deal than the modest tax relief, which amounts to $600,000 a year versus the $65 million a year the move would have saved the company. No wonder Carrier had turned down earlier offers of tax relief from the state economic-development agency. "I was born at night but not last night," United Technologies CEO Greg Hayes told Jim Cramer of CNBC. "I also know that about 10 percent of our revenue comes from the U.S. government."

The military-industrial complex strikes again. Free-market advocates should be concerned that the government can use military contracts to influence decision-making in the civilian economy.

Further, we must not ignore Trump's campaign threat to impose a punitive 35 percent tariff on any American company that moves a factory out the country expecting to export its products to the United States. When Trump appeared at the Carrier plant in Indianapolis to bask in the workers' gratitude, he declared that no longer will American companies be allowed to move offshore "without consequences." (Fortunately, congressional Republicans are pushing back against this policy. Also, it's not clear that a president has the authority to sanction particular American companies.)

So how could a market advocate cheer this deal? A few have managed to do so by focusing, out of context, on a single component: tax credits. But as noted, the tax credits were a small and inconsequential part of the deal. Moreover, tax credits have systemic effects that should concern free-market advocates. To name one, if spending isn't cut to match the credits, the government may make up the lost revenue with higher taxes or fees on others or through borrowing, which would prompt higher taxes later. There's no free lunch, even with tax credits. (More on this below.)

Market advocates sympathetic to Trump's deal point out that he promises general tax and regulatory reform designed to lighten the burden of government, freeing up enterprise to generate economic growth. The promise of general reform, it is said, means that the Carrier deal is not a sign of things to come.

I am skeptical. When Mike Pence was asked if the personal intervention in Carrier case would be typical in the Trump administration, the vice president-elect said, "The president-elect will make those decisions on a day-by-day basis in the course of the transition and in the course of the administration."

That's hardly reassuring.

But who can be surprised? Highly visible personal intervention — and the accolades it inevitably brings from beneficiaries — suit Trump's temperament perfectly. He may well push individual and corporate tax-rate cuts through Congress (let's hope so), but it's a mistake to expect him to be satisfied with that.

After his election Trump could have tweeted, "Hold on, Carrier. General tax and regulatory reform is coming," But he did not do that. It's not his style. Even if Trump gets his legislation passed, the praise for dry tax and regulatory reforms will soon fade, and the cable networks will stop showing scenes of the bill-signing ceremonies. Knowing what we know about the narcissist Trump, we can reasonably expect him to crave the rush provided by the public adulation that only his personal intervention in business affairs would bring.

About Trump's visit to the Carrier plant Pence said: "It was one of the most emotional experiences that I've had in my public career, the way people reached out, grabbed our president-elect by the hand and just said thank you."

Who thinks Trump won't want to repeat that experience often? Wide public support for the Carrier deal will surely encourage him. According to a *Politico* poll, a strong majority supports the president's negotiating with private companies, offering tax incentives not to move jobs offshore, offering contracts to companies for the same purpose, and negotiating with companies case by case. Republicans supported these things by even larger margins.

A corporate state would be nothing new in America, but we're likely moving to something worse: a corporate-state-cum-cult-of-personality. That is an unsavory prospect indeed.

Let's return to the subject of tax credits, a cause of heated discussion between free-market opponents and free-market proponents of the Carrier deal. Of course we may distinguish tax credits from subsidies. A credit represents the government's abstention from taking money from a taxpayer or company that it otherwise would have taken. A subsidy is an allocation of tax revenues already collected. But is the difference substantive or superficial? I say it's superficial (except perhaps in the case of a recipient who never paid taxes).

To see my point, ask yourself: what's an income-tax refund? It's not a tax credit because the government has taken the money before giving it back. But does that make it a subsidy? If not, why not? If one answers that it cannot be a subsidy if it's refund, then why isn't a subsidy actually a refund if the recipient previously paid taxes? The difference between a credit and subsidy is not what I once thought it was. It is formal rather than a substantive.

I leave that point now to take up something more important and egregiously overlooked. Even if you think the difference between a credit and a subsidy is substantive, one should at least acknowledge that credits can be as effective a tool of central economic planning as subsidies, taxes, and regulations can be. Any outcome that a politician could effect through direct intervention could also be effected indirectly through tax credits. Imagine a government that imposes a 100 percent income tax. (For my purpose, let's ignore the Laffer effect.) Imagine further that this government will let you keep increments of your money if you do certain things it regards as desirable. Back in my days at the old Council for a Competitive Economy we called tax-credit rules "hoop laws": you got to keep some of your money if you jumped through a government hoop. Is that better than accomplishing the same objectives directly? I don't see it.

Decisions on where to locate factories should not be influenced by the government. Remember, Trump's wish to stop companies from moving offshore is based on the protectionist-nationalist fallacy that jobs currently exist in the United States should remain there at all costs. Why? Because they are "American jobs." It is reactionary nonsense saturated with ignorance of — or perhaps self-conscious demagogy regarding — the workings and benefits of trade, comparative advantage, and the division of labor. The Carrier jobs kept in Indiana (for how long before robots "take" them?) are the immediate, seen benefits of Trump's intervention. But free-market advocates, having digested the wisdom of Bastiat, regularly admonish the public not to overlook the unseen subsequent harmful consequences of government intervention. When the government directs investment (no matter the method), it diverts labor and resources that would have gone to satisfying consumer preferences. Politicians are in no position to know how best to make such determinations. Their criteria will be irrelevant, and hence their decisions will leave us worse off. But favored interests will flourish (for a while).

We don’t have a free market today, of course, but that is no reason to move even further from the ideal through executive discretion over the economic decision-making. We have no grounds to believe that Trump or any government bureau could selectively intervene in order to accomplish what the free market would have accomplished. The Hayekian knowledge problem stands in the way. The market process reveals what otherwise cannot be known.

I certainly don’t begrudge anyone’s seizing an opportunity to keep or regain some of their money. But free-market advocates should no more applaud a system of discretionary tax credits than they should applaud a system of subsidies. Discretion is power. Since taxation is theft, the moral ideal is no taxation. The next best thing is low taxes without discretion.