The Consequences of Jawboning

Jawboning American industries to comply with political wishes has been with us at least as long as Teddy Roosevelt negotiated an end to the Pennsylvania coal strikes. John F Kennedy pressured the steel industry to settle a labor strike. Bailouts and tax payer funded bribes to attract and keep industry is used by every state and most nations. But just as Trump threatens consequences to those who will leave, there are consequences to his method which are beyond his control.

To be fare to the president elect, there are signs that his policy will rely more on carrots than sticks; that his preferred method is to reduce corporate taxes and friction costs and make the American economic environment more desirable for commercial activity. The incentives and the jawboning to keep and least a portion of the Carrier employee base in Indiana is a clear victory for the workers and clear political victory for Trump.

But it is also an example of Bastiat's broken window fallacy that should teach us to examine the entire cost and all the consequences of an economic decision. The rejection of ideology for immediate pragmatic results is a hall mark of progressivism, as is the use of central government power to drive local decision making. If this is only a short term pragmatic solution with an eye to creating an environment more amenable to bottom up economic growth then the harm will be limited.

The use of threats from a central authority, however, can become a slippery slope.

Kevin Williamson in National Review writes The Economic Stupidity of the Carrier Bailout:

> *The ethical question is more complicated than the pop-cons let on, too. Our government runs deficits, which means that a*

federal tax credit of $1 million given to Smith is $1 million in taxes that eventually will have to be paid — by Jones, and Wilson, and Humperdink — with interest. Carrier is a division of United Technologies (the Otis elevator and Pratt & Whitney engines people), which is first and foremost a government contractor, a firm that derives at least a quarter of its revenue from government contracts, and 10 percent of it from Pentagon contracts alone. It is a company that has competitors — competitors who employ Americans and pay taxes, just as Carrier does. These firms and their employees are put at an economic disadvantage by the subsidies paid to Carrier thanks to Trump and Pence. That means that some of these companies probably will be less profitable, and that they will not hire people they otherwise would have hired. But you'll see no Trump press conference celebrating that. This is a case of Frédéric Bastiat's problem of the seen vs. the unseen. The benefits are easy to see, all those sympathetic workers in Indiana. The costs are born by sympathetic workers, too, around the country, and by their families and by their neighbors. But those are widely dispersed, so they are harder to see and do not hit with the same dramatic impact.

From Don Boudreaux at Cafe Hayek, An Open Letter to Generalissimo Trump:

How do you anticipate business executives will respond to your bullying threats? Are you truly so stupid as not to understand that among the results of your intimidation is that fewer firms will open in America? That fewer businesses here will expand? That those that do open or expand will use a higher ratio of capital to labor because they fear that the greater the number of workers they employ the more likely they are to be victimized by your arbitrary diktats? That no matter how much you cut the monetary taxes they pay, the uncertainty and absurdity of your promised autocratic rule drastically raises firms' costs of starting and growing on

> *U.S. soil? And that each of these inevitable responses to your imperious fulminations will be slower job and wage growth for Americans?*

From the Wall Street Journal Editors, Trump's Carrier Shakedown:

> *The company is also betting that Mr. Trump will fulfill his promise for tax and regulatory reform to make U.S. manufacturing more competitive. United Technologies does about 61% of its sales outside the U.S., and it has some $6 billion in cash overseas that would be taxed at a 35% rate if it brought the money home today. Carrier currently pays a 28% effective tax rate, so a tax reform that cut the corporate rate to 20% and only taxed earnings in the country where they are earned would more than make up for the Indianapolis concession.*

From The Editors of National Review, The Winners and Losers of the Carrier Deal

> *We are not very enthusiastic about government-run economic-development programs that rely on industry-specific — or firm-specific — tax breaks, grants, or other concessions. In the long run (and generally in the short run, too), these programs are almost always corrupt in themselves and a source of corruption in others, with the benefits going mainly to politically influential and well-connected companies, whether that means Solyndra during the Obama administration or Carrier in the Trump administration. Inevitably, what happens is this: The government creates a set of incentives to encourage certain kinds of business activity, from "green" energy to manufacturing, and then, after a few years pass, complains mightily that companies are responding to the incentives that the government created. Consider those periodic journalistic spasms over General Electric's low corporate-tax bill or the criticism that Starbucks*

encountered for taking advantage of manufacturing credits in its manufacturing operations: Those deductions and carve-outs didn’t happen by accident – they happened exactly the way the Carrier deal is happening.