INDIANA ECONOMIC DIGEST
Daily News on Business and Economic Events throughout Indiana

Are big shot, high-minded corporations still necessary?

By Craig Ladwig

April 10, 2015 F

"If the legislators were trying to reinforce Indiana's image as a backwater, it couldn't have done better than this [the Religious Liberty law]. I Googled 'Indiana' Tuesday morning, and this issue was at the top of the page. How embarrassing."

— Matthew Tully in the April 3 Indianapolis Star

As the Religious Freedom hysteria subsides, the governor of Illinois, Bruce Rauner, threatens to "rip the economic guts out of Indiana." Some Chicago opinion leaders believe he will be able to poach corporate executives here, those embarrassed to have their companies associated with Hoosiers.

May it be suggested that he start with the Indianapolis Star, champion of the same-sex wedding cake. The senior leadership there has only a passing acquaintance with Indiana anyway. A journalist we know likes to refer to them as "occupiers" in reference to the Franco-Norman knights who took possession of Medieval England after the Battle of Hastings, their status and influence assigned from afar.

But what about the loss of Gannett Co. investments and payroll? Won't the money be leaving Indianapolis for Illinois along with that from those other large corporations of strong social conviction whom Gov. Rauner would gut from us?

It might not make as much difference as you would think. Some points to consider:

To begin with the most obvious, there are individual Hoosiers with the ways and means to step into any media vacuum left by a socially affronted Gannett management team — and perhaps do so more profitably. For corporatism is not the same thing as capitalism. The former primarily limits financial liability while the later actually creates wealth.

Indeed, there are serious people who will tell you that single proprietorships, even a small Christian bakery or pizzeria, build a community while widely held corporations, even as large as Gannett and its Indy Star, can take more out than they put in.

This is the general argument of the economic philosopher Roderick T. Long in his 2008 essay for the Cato Institute, "Corporations Versus the Market." In a truly free market, Dr. Long argues, firms are smaller and less hierarchical, more local and more numerous (many being family proprietorships or employee-owned); prices are lower and wages higher; and corporate power is greatly reduced.

"Small wonder that big business, despite often paying lip service to free-market ideals, tends to systematically oppose them in practice," he adds.

Giant national firms are not only direct beneficiaries of government intervention in the form of eminent domain and tax breaks, but from policies of wider application. The funding of public highways through tax revenues, Dr. Long notes as an example, constitutes a de facto transportation subsidy, allowing corporate chains to socialize the costs of shipping and so enabling them to compete more successfully against local businesses. He says that the low prices we enjoy as consumers are made possible in part by our having already indirectly subsidized the corporation's operating costs in our capacity as taxpayers.

And if assurances of tax-funded bailouts and convoluted tax-increment financing lead the local economic-development entity to make riskier deals than they otherwise would, then losses are borne by unconsenting taxpayers and malfeasance is abetted.

Dr. Long says that large, widely held corporations "keep costs low by paying low salaries but what makes those low salaries possible is the absence of more lucrative alternatives for its employees, and that fact in turn owes much to government intervention."

Regulations, fees, licensure requirements, health-care laws, et cetera, do not affect all market participants equally, and corporate lobbyists oppose them with less vigor than they pursue monopoly advantage. "It's much easier for wealthy, well-established companies to jump through these hoops than it is for new firms just starting up," Dr. Long says. "Hence such regulations both decrease the number of employers bidding for employees' services (thus keeping salaries low) and make it harder for the less affluent to start enterprises of their own."

Yes, we surely would wish the executives of the Indy Star well in any exodus to Gov. Rauner's more politically correct and socially sensitive Illinois. It is unlikely, though, that Indiana would miss them very much.