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Reducing the Deficits: Let's Get Serious About Business Entitlements

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As lawyers say, let's stipulate that the political system is broken. We have, in the past, railed against special tax incentives for business that are often outmoded, ill conceived, and are generally ineffective. These, more often than not, merely distort the marketplace at great expense to the taxpayer and the American consumer. Elected officials in Washington have become so locked into doctrinaire philosophical positions that compromise has eluded their reach, and common sense has become as rare as the two-dollar bill. Democrats and the left point to growing gaps between the middle class and those they refer to as millionaires and billionaires (people who earn over \$250,000 per annum) and who they say must pay their "fair share" in taxes.

And while it is widely acknowledged that the top 5% of earners pay over 50 percent of federal taxes, there has been a growing concentration of wealth within that top 5% of income earners during the last 20 years. Politicians love to define issues in a debate to gain popular advantage. The country is in desperate need of economic growth, which the Obama Administration has failed effectively to address. So, the White House has made increased taxes on "millionaires and billionaires" the cornerstone of their 2012 election strategy. Excessive spending, the growth of the federal deficit and the accumulated debt of the country threaten to snuff out economic growth in America just as it surely is doing in Europe. When Barack Obama became President, the federal debt was slightly over \$10 trillion dollars. It has grown to more than \$14 trillion dollars under his watch. If spending is not reined in, and/or revenues do not increase, servicing the nation's debt will crowd out vital resources for private investment (where new jobs are created).

Elected officials are not leading; they talk past one another. The way out of this mess might be in changing the vocabulary of the debate so both sides can claim a victory. The Democrats could hoist the GOP on their own petard by shifting the debate away from tax increases, to cutting corporate entitlements and benefits. Note that the right complains about spending only when the beneficiaries are those who rely on government to help with retirement payments, medical benefits, or to finance their children's education. Cutting specified corporate entitlements that really provide no economic benefit to the

country would be easier for conservatives to swallow than increasing tax rates, which would retard economic growth.

Business Entitlements, or what the left likes to call “corporate welfare”, runs in excess of \$100 billion a year according to the libertarian CATO Institute. These so-called incentives are often misallocations of federal spending on programs that simply do not work, or otherwise distort free enterprise competition. Let’s eliminate these wasteful programs and deflate, once and for all, leftist arguments that the rich are opposed to raising tax revenues. These misguided corporate taxpayer handouts are spread throughout the federal budget. The actual total expenditures are hard to quantify, but are larger than the entire annual budgets of many countries. Even conservatives have trouble agreeing on which programs constitute proper government spending or which amount, figuratively, to flushing government revenue down the drain.

Businesses that are darlings of both the left and the right happily feed at the taxpayer-subsidized trough. While the United States boasts the second highest corporate tax rate in the industrialized world, a variety of tax breaks assure that few corporations pay at the full 35% corporate tax rate. One study published by the left-leaning Citizens for Tax Justice found only 25% of companies paying more than 30%, while 35% were paying at an effective tax rate of 17.5% to 30% and 40% were paying less than 17.5%. And, of course, many profitable fortune 500 companies manage to pay no federal income taxes at all. Among those corporate luminaries paying no federal income taxes for the last three tax years were General Electric, PG&E, Baxter International, Verizon, Boeing, Mattel and Corning (to name a few).

Until this year, the nation had spent over \$50 billion to subsidize the production of ethanol to produce fuel from corn (at a taxpayer subsidy of about \$1.50 a gallon). The rationale for this program was to reduce the nation’s reliance on imported oil. Of course, it has done no such thing. Instead, it is nothing more than a subsidy to farmers (mostly corporate owned) and ethanol refiners. The real result has been that corn available for human and animal consumption has dropped precipitously, and food prices have shot up dramatically. According to a 2006 USDA report, the indirect subsidy to ethanol on the 4.9 billion gallons produced in 2006 came to \$3.9 billion. Together with the direct subsidies of \$0.9 billion for corn and \$2.5 billion for ethanol the grand total was \$7.3 billion. That’s \$1.50 per gallon of ethanol, or \$2.28 per gallon of gasoline replaced. These subsidies have produced an enormous boom in ethanol. Between August 2006 and January 2007, the capacity of existing plants and plants under construction grew from 7.4 billion gallons to 11.4 billion gallons — a 54% increase in six months. One USDA official described the state of the market as ethanol euphoria. What did this do for the American taxpayer? Nothing other than increase the cost of living.

In June of this year the Senate voted to end this subsidy, it is not yet clear whether it will really end. As Yogi Berra famously put it, “It’s not over until it’s over”. Moreover, it has always been unnecessary since Congress already had required automobile manufacturers to reduce fuel usage under the 2007 renewable fuel standards. Another favorite of the left (and those businesses who are recipients of federal money) are high-speed rail projects.

George Will (not exactly known as a leftist) in his February 28 column succinctly put it this way:

Generations hence, when the river of time has worn this presidency's importance to a small, smooth pebble in the stream of history, people will still marvel that its defining trait was a mania for high-speed rail projects. This disorder illuminates the progressive mind.

Remarkably widespread derision has greeted the Obama administration's "damn-the-arithmetic-full-speed-ahead proposal to spend \$53 billion more (after the \$8 billion in stimulus money and \$2.4 billion in enticements to 23 states) in the next six years pursuant to the president's loopy goal of giving "80 percent of Americans access to high speed rail."

Criticism of this optional and irrational spending — meaning: borrowing — during a deficit crisis has been withering. Only an administration blinkered by ideology would persist.

Perhaps the biggest objective of the left is the cap-and-trade requirement of the Kyoto treaty (which liberals loved). The "treaty" had as its rationale a reduction in carbon emissions in the atmosphere. The effect on our economy if we joined the treaty would have been disastrous. EU nations signed on to the treaty, which is soon slated to expire. It has become so unpopular and costly that early indications are that the EU will not agree to a renewal.

Now let us return to the central point of this essay. Billions of dollars are spent every year by the government to subsidize corporations. Not all corporations benefit from every subsidy. What most conservatives and corporations do agree upon, to the point that it has become doctrine, is that they absolutely oppose any tax increase that would retard economic growth. Therefore, why don't we reach a compromise by not raising tax rates (which is what the President's own Deficit and Debt Reduction Commission recommended) and, instead, eliminate most or all of these subsidies? The result is likely to be the same: Much more revenue being contributed by "the wealthy".

People with a central planner's mentality have what renowned Austrian economist F.A. Hayek called "the fatal conceit." As he stated the case:

I'd have thought the fall of the Soviet Union would have taught us that central planning is destructive, but the conceit of the central planners lives on. Maybe the problem isn't merely economic ignorance. Maybe it's something more sinister: a wish to keep the freeloading system going. After all, if politicians and business leaders admit that government cannot play a constructive role in the economy, what grounds would there be for subsidies, shelter from competitors and other privileges at the people's expense? The anti-free-market ideology is a vast rationalization for favoritism.

Hayek's celebrated 1947 prescient book predicted with great clarity what becomes of nations that worship at the alter of central planning. The book was titled "The Road to Serfdom."