Warren Buffett Off the Mark

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Created: Aug 24, 2011 *Last Updated:* Aug 24, 2011


TAX THE WEALTHY: Warren Buffett is seen in this file photo from Oct. 5, 2010 in Washington, D.C. For several years, Buffett has advocated for taxing the wealthy their fair share. (Jemal Countess/Getty Images)

Warren Buffett contended in a recent New York Times op-ed article "Stop Coddling the Super-Rich" that America's finances would make a leap forward if its elite, the super-rich, would pay their fair share of taxes.

Buffett forgot to include in his forward-looking statement the elimination of corporate tax subsidies, especially for companies that export America's jobs but want Americans to keep buying their products.

Corporate welfare, which comes in the form of subsidies, has been under fire for some time. Proponents claim that subsidies should result in the creation of more jobs and bring people back to work, while opponents outright laugh at this suggestion.

Already at the end of the last century, an article in the Encyclopedia of Business stated, "Fortune 500 firms, which are the main beneficiaries, have eliminated more jobs than they have created during this period."

At the beginning of 2011, a Cato Institute article argued against corporate subsidies by recounting a typical scenario in which subsidies had just the opposite effect.

At the end of his term, former Pennsylvania Gov. Ed Rendell announced the creation of a $10 million grant, to be awarded to any corporation willing to reopen a former Sony Corporation plant in Pennsylvania. Companies at that particular site had been subsidized by the state's taxpayers three times in the past.

Germany's Volkswagen Group (VW) had been awarded $70 million in 1977 for the site by former Gov. Milton Shapp. In 1987, VW moved on to greener waters. Sony moved into the empty plant in 2005 and out in 2007. It had received a $40 million state subsidy and then another $1 million before it moved out.

In mid-1999, the Cato Institute testified before the Committee on the Budget: "Corporate welfare is a large and growing component of the federal budget. … In 1997 the Fortune 500 corporations recorded best-ever earnings of $325 billion, yet incredibly Uncle Sam doled out nearly $75 billion in taxpayer subsidies. … There are roughly 125 such business subsidy programs in the federal budget."

Scrutinizing Corporate Welfare

"The problem is that not everyone defines it [corporate welfare] in the same way," states the Cato Institute's handbook, published on the organization's website.

Cato describes corporate welfare/subsidies as any allowance or grants the federal and local U.S. governments dole out to certain industries, giving them an advantage over competitors.

Narrowing it down, Cato points to direct or indirect grants. Indirect grants refer to those that are awarded to one firm, which then distributes it to other companies in the supply chain.

Next comes research, through which government employees from the Agricultural Research Service, the Economic Research Service, the U.S. Department of Energy, and other agencies develop new products, improve upon a product, or come up with innovative processes and then give these innovations to a corporation for free or little cost, saving the firm untold dollars in research and development.

Then there are subsidized loans and insurance or guarantee programs, in which the U.S. government takes the majority or all of the risk. These programs come in different forms and from different government agencies, including the U.S. Commerce Department, Department of Agriculture, Department of Defense, and export-oriented agencies.

There are also a number of visas that allow companies to bring foreign workers into the United States to reduce labor costs and train candidates for future outsourcing of jobs. Such visas include H-1B for professional-level positions, L1 for company transfer of an employee from a foreign subsidiary to the United States, E for treaty traders or treaty investors, and J for bringing foreign workers into the United States for training.

The average wage for a U.S. computer programmer is $74,700, while the same individual earns $10,200 in India, $10,000 in China, and $5,900 in the Philippines. An electrical engineer earns $135,900 in the United States, $13,200 in India, $26,000 in China, and $7,000 in the Philippines.

"Evidence shows the visa programs to be increasingly a means to help outsource U.S. jobs or recruit cheap temporary labor. … In some cases foreign workers are brought to the United States for job training by American workers, then after the training, foreign workers return home and do the same work for less pay, while the American workers may be laid off," stated a 2010 Rochester Institute of Technology research report.

Eliminating Subsidies

"The [congressional] super committee has many options to increase revenue, particularly by eliminating or reducing subsidies provided through the personal income tax and corporate income tax to business and wealthy investors," stated Citizens for Tax Justice (CTJ) in its Aug. 11 online publication.

The super committee was created under Title IV of the Budget Control Act of 2011, which called for the establishment of the Joint Select Committee on Deficit Reduction. The committee includes 12 members: six senators and six members of the House of Representatives, who have been appointed by the majority and minority leaders of the Senate and the House.

There are already voices in the House and Senate that claim that this super committee is unconstitutional.

Making the above argument ineffective is Article 1, Section 5 of the U.S. Constitution, which states "Each House may determine the Rules of its Proceedings."

"The establishment and the planned operation of the Joint Select Committee are constitutional, whatever pragmatic objections there might or might not be to this approach," argued Eugene Volokh on his blog about the constitutionality of the Joint Select Committee on Deficit Reduction.

Super Committee Gift to K Street

"Congressman Ron Paul has called the 'Super Congress' a gift to K Street," according to an Aug. 10 article on the Cynical Revolution website.

The selected members of the super committee include seasoned and unseasoned politicians, but they all have experience in the tax and budget arena.

Experts' dispute claims warn that the committee would be governed by bipartisan squabbling. Others charge that given the background of each member, violations of ethical integrity would be an issue. The members received millions in campaign contributions from lobbyists over the past years.

The MAPLight website published a list of donations received by the members of the super committee during the past two years. Sen. Patricia Lynn Murray (D-Wash.) came in as the Senate Democrats' leading fundraiser; she received major campaign donations from Boeing Inc.

Sen. Max Baucus (D-Mont.) received contributions from law firms, hedge funds, health care firms, Goldman Sachs, and others. Rep. Dave Camp (R-Mich.) collected close to $3 million in funds from special-interest groups in 2009 and 2010. Sen. Jon Kyl (R-Ariz.) received $13.6 million in campaign contributions between 2005 and 2010.

Insulating Super Committee

Voices from all corners of the United States are suggesting that the super committee members must forego political donations from any company or individual and not attend meetings with interest groups and representatives of companies going forward.

"The best way to insulate the committee is for appointed members to end all fundraising and to be fully transparent regarding with whom they meet while they serve on the committee," wrote a coalition of 25 public interest groups in an open letter to Congress dated Aug. 4.

Suggestions include having the super committee raise revenue by getting rid of subsidies for both corporations and individuals, and keeping their hands off further spending cuts that were already detailed under the recently enacted debt agreement.

More than half of voters see the super committee as another whitewash because most members are too beholden to special interest groups, according to a recent poll by the Democracy Corps and Greenberg Quinlan Rosner Research.

"Seventy-one percent of all voters say they would be more likely to support committee members who give up campaign donations and agree to not meet with lobbyists while serving on the bipartisan super committee," said the Democracy Corps survey report.

Tax subsidies are on everybody's mind. The Treasury published a partial 2011 tax subsidy list for firms and investors. Annualized, the cost to the American economy is around $365 billion, according to the 2011 testimony before the Senate Budget Committee by CTJ's Director Robert S. McIntyre.

"Tax subsidies cost [the United States] a billion dollars a day," stated a recent publication by CTJ.

Opposing Buffett's View

"The first problem with Buffett's view is that the number of super-rich is too small for higher rates to make much difference to our budget problems," said Jeffrey A. Miron, director of undergraduate studies at Harvard University, in a rebuttal article published on a number of different websites.

Miron points to many different issues, including the too-big-to-fail principle that Buffett could have addressed but didn't for unknown reasons.

Using 2009 numbers, the article suggests that increased taxation of the super-rich would add $73 billion in revenue to the U.S. budget, which comes to no more than 2 percent of the federal budget.