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Soviets and subsidies: An honest opinion on a costly issue

By Trevor Shaw
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Ever since the beginning of the Cold War, the United States has been quite critical of socialist regimes, and with good reason. One country in particular was the late Soviet Union. Between movies and politicians, we've seen the Russians portrayed as the 'bad guys'. This nation was the first to accept Marx's theories of communism and as a result, the Russians revolted against their Czarist oppressors. Although they never achieved the communism that Marx believed was possible, they did succeed in socializing their economy. Consequently, in order to aid their suppliers and consumers, the soviets dedicated one quarter of their economy to subsidies. Soviet Russia was, in a way, an experiment, one that failed.



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Whether I'm watching the news or talking with friends, it is inevitable that the discourse will evolve into politics. And from politics, leaps out that monstrous creature, the question of all questions: What is the role of government in our lives, economy and future? This exposition will address the second aspect of this question, the economy, more specifically, the role of subsidies in our economy. Although many of these policies are made to benefit the rest of society, we must be wary of the economic implications of such actions.

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From energy to agriculture, the United States has devoted large sums to subsidies. According to statistics from the Cato Institute, thirty-four percent of the Department of Energy's budget is allocated to subsidy programs. The Department of Agriculture's budget allocates fifty-nine percent. The greatest amount of subsidies can be found in the Department of Health and Human Services: fifty-six percent of a budget comprised of approximately \$869 billion. The full expense of the subsidies listed above, in addition to those subsidies associated with the Departments of Commerce, Education, and Housing and Urban Development, is nearly \$540 billion. This isn't quite as large as compared to the Soviet Union's subsidies, only 15% of the federal budget. That doesn't seem too frightening. It's not as if we're becoming Marxists. In fact it might seem that subsidies are beneficial to businesses and individuals alike. After all, supplementing businesses to provide better products and helping individuals to buy them sounds like a good idea, right? Well, not exactly.

While there are certainly problems with the subsidies just mentioned, it would be best to ascertain all of the subsidies, including those factions that do not fit neatly under each department, such as the Federal Reserve Mortgage-Backed Securities, the First Time Homebuyer Tax Credit and even Cash for Clunkers. Let's start with the latter of the three, an attempt that to help stimulate the economy that ultimately,

aside from saving some consumers money, failed to aid the United States. Cash for Clunkers was successful in one thing: costing the government \$3 billion, according to the Republican Caucus of the Committee on the Budget.

Next, we have the effects of the First-time Home Buyers Tax Credit. Simon Johnson and James Kwak summed it up nicely in the fall of 2009 when they said "This is a bad idea." They predicted that this tax credit would drive up housing prices and cause an array of problems for the economy. The next spring, New York Times' David Kocieniewski wrote, "in October 2009...the I.R.S. had allowed \$139 million in credits to people who had not yet bought homes, and \$479 million to taxpayers who were not first-time buyers." Now, in the fall of 2010, where are we? Well, the government is about 19 billion dollars short of where it would have been. What about interest rates? That leads us into a whole new arena: mortgage-backed securities.

This is the head of the pack; potentially, the deadliest hound among subsidies: Mortgage Backed Securities. The Federal Reserve has bought, according to their own statistics, \$1.078 trillion of them. Why? To save America of course. The fed bought these securities to keep interest rates down and, according to their website "to provide support to mortgage and housing markets and to foster improved conditions in financial markets more generally." But surely, there must be some repercussions of buying almost \$1.1 trillion of securities? There most certainly is. An article in the *Washington Post* by Neil Irwin states the consequences of buying such securities. He said that the first effect of buying additional securities would, "[distort] capital allocation, favoring housing over other sectors." Second, he noted that "the market for mortgage securities has been slow to return to normal after the earlier Fed purchases." Another school of thought suggests that when home prices decrease, the Federal Reserve will be in trouble as a result of defaults.

So, generally, how do subsidies affect us? Higher taxes. Someone always has to pay, and in this case, it's you and me. We taxpayers get to pick up the slack when ideas don't pay off. Citizens have their duty to the government, but a legitimate government must still answer to the people.

Obviously, there is much to consider in regards to subsidies. Although their goals may be noble, their effects, direct and indirect, must be evaluated. The socialist experiment has been proven to fail, time and time again. My generation must be wary that our experiment, the American experiment, continues to succeed. [ESR](#)

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