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Corporate Welfare And The Mercantile System

David S. D'Amato

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Critics of libertarians seem to worry most about our full-throated endorsement of and enthusiasm for the proven benefits of unhindered free-market competition. They believe that we are cynically defending a corrupt system of power and privilege, carrying water for capitalism's exploiter class. There is, they argue, a need for governments, ostensibly pledged to "the greater good," to intervene to counteract some of the perceived undesirable side effects of the free market system, which they say moves society toward inequitable accumulations of wealth in the hands of a few.

This story, if true, would be rather damning for libertarianism, vindicating the kinds of economic intervention and redistribution for which progressives routinely argue. However, their problem is key parts of the story rely on fallacies and mistaken assumptions about the operation of markets and the character of government's interactions with them. And these mistakes are easily correctable with a small dose of real-world observation and a better understanding of the basic principles of political economy.

Today, it's not easy for the layperson or the casual observer to tell where the free market ends and the collusive cronyism begins. Given the wide variety of shapes that it can take (and debates about its definition), it's difficult to know with certainty just how much corporate welfare costs taxpayers and the economy.

A 2012 Cato Institute study by Tad DeHaven estimates, "Corporate welfare in the federal budget costs taxpayers almost $100 billion a year," likely a conservative estimate at the time and certainly lower than the current level. The U.S. economy is so thoroughly pervaded by corporate welfare that many Americans have regrettably come to regard these deviations from the free market as the thing itself. It is therefore easy to blame "the free market"—or market economies in general—when a financial disaster befalls the country.

All this is quite ironic, however, because the earliest free-market classical liberals set their program of trade and individual rights in explicit opposition to the system of power and privilege then prevailing. In fact, our corporate economy is nearer to its historical antecedent, mercantilism, than it is to the libertarian ideal of a genuine free market.

The classical economic thought of Adam Smith was in large part a criticism of the “mercantile system” of his day, through which politically powerful joint-stock companies monopolized trade with the blessing of the law. No one in Smith’s day (and certainly not Smith himself) was so naïve as to believe, as today’s progressives do, that the formidable power of the state would be exerted in favor of the poor and downtrodden; they knew the Crown would favor its friends and that the hallways of power would be dominated by the already powerful. Smith explains,

“It cannot be very difficult to determine who have been the contrivers of this whole mercantile system; not the consumers, we may believe, whose interest has been entirely neglected; but the producers, whose interest has been so carefully attended to; and among this latter class our merchants and manufacturers have been by far the principal architects.”

Smith was careful not to demonize particular beneficiaries of privilege, noting that it was not his intention “to throw any odious imputation” on them. “It is the system of government,” writes Smith, “the situation in which they are placed, that I mean to censure; not the character of those who have acted in it.”

Smith was no utopian; he was sophisticated enough to understand faulting people for pursuing their interests and following incentives is an exercise in futility. Libertarians simply apply Smith’s simple lesson: Properly channeled, the same incentives could unleash a torrent of wealth creation and positive social change. Smith was right to insist it doesn’t make a whole lot of sense to blame Big Business for grabbing eagerly at taxpayers’ stolen dollars. If our “public servants” offer it to them freely, it’s hard to imagine that mere moral compunction would suffice to stop giant corporations from acting in their own interests. Special favors, once created, will naturally and inevitably become the targets of competition, now no longer a process beneficial to consumers but conducted through lobbyists with direct access to lawmakers. Economists have long studied this pernicious kind of competition: the competition among influential special interest groups for perks and advantages, which will be a perfectly rational investment for business firms for as long as politicians have the power to grant these benefits.

The solution to this apparently intractable problem is surprisingly simple and utterly inconceivable in the short term, because it would require a restoration of principles long ago disowned by the American political class: basic equality before the law, constitutionally limited government, and genuine free markets. As a form of differential treatment, corporate welfare is a violation of all these. A sufficiently limited government does not have discretion to dole out subsidies and protections; its only role in the economy is to protect individuals, their rights, contracts, and private property. Though few of its adherents would acknowledge it as such, Keynesianism represents a regression to the mercantile system; its fiscal and monetary stimulus packages funnel money to political favorites.

History and basic economics teach us that when government interferes in the economic sphere, it does so not as a friend of the average worker and consumer, but as cheat that helps some at the expense of others. Often government does this even in spite of its agents’ good intentions, which should humble lawmakers and regulators. Solving the problem of corporate welfare requires a more modest government, confined to protecting individual Americans, not rigging the game for its cronies.