

# The Corner

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## A Good Case Against Tax Breaks

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I realize that I am risking being ostracized by some, but I have to say that I find it very strange that conservatives would defend tax breaks, and industry tax breaks in particular. For one thing, tax breaks make the market less efficient and rarely lead to lower prices for consumers. In addition, they are one of the reasons why the tax code is so complicated. Given that, I really [liked this piece](#) by Cato Institute's Peter VanDoren and Jerry Taylor over at *Forbes* on the issue. They explain among other things that:

There is no good economic argument for either of these tax breaks. They are simply statements that “we won't tax you for the cost of doing business like we would if you were in any other industry because ... we like you!”

Many conservatives argue that the elimination of these energy tax provisions and others like them for other sectors are tax increases. They are correct in a narrow sense. But in a larger sense they are incorrect because the elimination of such tax provisions makes the tax code more neutral and a more neutral tax code is a more conservative tax code.

Whether you call them “subsidies” or “purple roses,” what's going on here is the elimination of a favor not provided to other tax-paying businesses. Such favors direct private investment to the favored businesses and away from the unfavored as market actors chase the artificially higher profits in the favored sector. And such favors are as much a part of big government as explicit appropriated spending. Tax breaks like this constitute big government on the sly. The size of government is best measured by its total effect on the allocation of resources — not by some crude and incomplete accounting of the government's tax bite.

Of course, the current trend is to talk about eliminating or reducing tax breaks for targeted industries rather than for all of them, which I think is wrong. If tax breaks are bad for one industry, they are bad for other industries. Taylor and VanDoren end with an instructive criticism of the president's position on getting rid of oil and gas tax breaks.

First, there's the demagogic suggestion that oil companies are getting a relative free ride when it comes to their federal tax bill, which they most certainly are not. Second, he offers this tax loophole-elimination program as an answer to high gasoline prices despite the fact that eliminating these tax breaks will do nothing to reduce fuel prices. Third, by leaving the manufacturing tax credit in place and just narrowing its scope, he arguably increases — not decreases — the economic inefficiencies that follow. Fourth, he links elimination of oil and gas tax breaks with an expansion of the tax credits associated with renewable

energy, which does nothing on balance to make energy markets work more efficiently (indeed, it probably makes matters worse).

The whole thing is [here](#).

The bottom line is that we need to get rid of these breaks and ideally use the revenue to reduce tax rates. Moreover, it is time to start fighting for a flat tax.

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