Corporate Grift

Why Corporate Welfare Is The Enemy of Free Enterprise



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I believe in free markets. That means something more than saying I support business. It means businesses should compete under the same rules, make their own investment decisions, take their own risks, and live with the consequences. When they succeed, they should profit. When they fail, they should bear the loss. That is capitalism.

Increasingly, however, we have replaced that straightforward principle with something else. Governments decide that certain companies, industries, technologies, or investments deserve special treatment. They offer tax credits, subsidies, grants, loan guarantees, and other incentives designed to encourage decisions that businesses might not otherwise make. We still call it capitalism. Too often, it is corporate socialism.

When Government Picks the Winners

Suppose two companies are considering investments. Company A looks at the economics and concludes that a new factory makes sense. It invests its own money, hires workers, produces a product people want, and succeeds. Company B looks at a similar investment and concludes that the numbers don't work. Then government offers a large tax credit or subsidy, and suddenly the investment becomes profitable.

The first company is competing in a free market. The second is making a business decision partially financed by taxpayers. The distinction matters because subsidies don't create free money. Every dollar government gives to one business must ultimately come from taxpayers, additional government borrowing, or reduced spending somewhere else. Someone always pays.

The same principle applies to targeted tax breaks. A tax system should raise the revenue necessary to operate government while interfering as little as reasonably possible with economic decisions. It should not become a massive collection of incentives intended to steer businesses toward whatever politicians currently consider desirable.

Yet that is exactly what we have created. Build this and receive a credit. Invest there and receive a deduction. Manufacture this product and receive a subsidy. Locate your plant in our state and we'll give you a special tax package. At some point, businesses stop simply asking whether an investment makes economic sense and start asking what government will pay them to do it. Those are very different questions.

I don't blame corporations for taking advantage of these programs. If government legally offers a company a tax credit worth millions of dollars, management has a responsibility to consider it. I no more blame a corporation for accepting a legal tax incentive than I blame an individual for taking a legal deduction. The problem isn't the company

accepting the benefit. The problem is the system that created the special benefit in the first place.

The Corporate Bidding War

State and local governments have turned this practice into an art form. A large corporation announces that it is considering a new factory, headquarters, warehouse, or technology center, and governors, mayors, and economic-development agencies line up with competing offers. Tax abatements, infrastructure improvements, grants, training programs, cheap land, and special financing become part of the negotiation.

From the company's perspective, this is perfectly rational. If North Carolina offers $200 million and Virginia offers $300 million, management would be foolish not to consider the difference. From the taxpayer's perspective, however, an obvious question should be asked: **If this is such a good investment, why do we have to pay the company to make it?**

There are legitimate reasons for public investment in infrastructure, education, research, and other things that broadly improve an economy. Building a better transportation system can benefit thousands of businesses. Improving public education creates a more capable workforce available to every employer. Basic research can produce knowledge that eventually benefits entire industries. Those are investments in the economic environment rather than subsidies to individual companies.

Writing a special deal for one corporation is different. One improves the playing field. The other favors a player.

Who Really Benefits?

There is another problem with this system: it naturally favors companies large enough to exploit it. A small manufacturer usually doesn't have a

government-relations department. The neighborhood business doesn't employ teams of tax attorneys to search federal and state law for specialized credits. A startup cannot threaten to move 5,000 jobs across a state line unless the governor improves its incentive package.

Large corporations can do all of those things. The result is an extraordinary irony. We justify these programs in the name of promoting capitalism while creating a system in which political access, negotiating leverage, and sophisticated tax planning become competitive advantages. In a genuinely competitive market, the company with the best product, service, technology, or business model should have the advantage—not necessarily the company with the best lobbyist.

None of this means government has no role in the economy. Government provides courts that enforce contracts and property rights. It builds infrastructure, supports education, funds basic research, protects public health and safety, and establishes the rules under which markets operate. Those functions help create the conditions in which capitalism can flourish.

There is a fundamental difference, however, between building a highway that thousands of businesses can use and giving one corporation a special tax break to build a factory beside it. Government should build the playing field, establish the rules, and enforce them fairly. It should not decide which players deserve a head start.

Let Capitalism Work

Businesses should make investments because they believe those investments will produce an adequate return. They should hire employees because those employees make the business more productive. They should purchase equipment because the equipment improves their operations, and they should develop products because customers want to buy them. Investors—not taxpayers—should bear the risk when those judgments prove wrong.

That discipline is one of capitalism's greatest strengths. Markets continuously test ideas. Successful ideas attract capital, while unsuccessful ones eventually lose it. Resources move from less productive uses toward more productive ones. Government subsidies interfere with that process by altering the calculation of risk and return.

Sometimes government will pick a winner, and sometimes it will pick a loser. The larger question is why government should be picking either.

I am not arguing for government to be hostile toward corporations. Quite the opposite. I want government to stop favoring some of them. Create a simple, competitive tax system. Invest in infrastructure, education, research, and other legitimate public goods. Enforce reasonable regulations equally. Protect property rights and contracts. Then allow entrepreneurs to take risks, investors to allocate capital, businesses to compete, and consumers to decide who wins.

When a corporation comes to government asking taxpayers to make an investment profitable that otherwise would not be, the answer should be simple: **If it's a good investment, make it with your own money.**

That isn't anti-business. It's capitalism.