Journal of Markets & Morality
Volume 19, Number 1 (Spring 2016): 133–137

ETHICS AND ECONOMICS

Corporate Welfare: Crony Capitalism That Enriches the Rich

James T. Bennett

New Brunswick, New Jersey: Transaction Publishers, 2015 (237 pages)

On July 14, 1981, General Motors razed the Poletown neighborhood in Detroit and Hamtramck to make room for a state-of-the-art Cadillac assembly plant. The cities invoked eminent domain to buy long-time residents out of their homes for a plant that employed robots instead of union workers in a number of functions. Chrysler had recently closed its Dodge Main assembly plant, even though the federal government had bailed out the third largest domestic car company, and the gallows humor around Detroit asked the last person in the city to turn out the lights.

The factory today makes Cadillac and Chevrolet automobiles, including the all-electric Volt, but neither Detroit nor General Motors received the promised benefits of the plant. In the auto industry, "Poletown" became a byword for technology gone wrong and the high costs and low volumes that can result from implementing too much technology. For many others, it was the most egregious example of eminent domain abuse until Susette Kelo went to the US Supreme Court to save her little pink house.

James T. Bennett devotes a chapter to Poletown and eminent domain in his book that traces the history of corporate welfare from Alexander Hamilton at the country's founding to recent debate on funding the Export-Import Bank. Appropriately enough, given the agreement between small-government advocates and anticorporate warriors on corporate welfare, Ralph Nader provides the foreword. Bennett hopes the left/right agreement can provide the impetus for an eventual end to corporate welfare in all of its guises. The problem for now is that, while presidential candidates Ted Cruz and Bernie Sanders may have both voted in the Senate to defund the Export-Import Bank, they lost.

Smaller government with lower taxes would provide fewer reasons for companies to seek special benefits and fewer opportunities for governments to provide them. North Carolina's legislature has reduced taxes broadly, making most companies better off, while tinkering with targeted tax incentives for historic properties, films, and renewable energy. Virginia Governor Terry McAuliffe is now looking to reduce his state's corporate tax rate to compete.

Bennett is reluctant to blame companies for playing the subsidy game and focuses his criticism on government's size and scope. Companies, though, deserve more criticism when they play the game, and not just the welfare queens such as Boeing or GE. Large companies actively pit states against one another to obtain subsidies even when there is no real competition. They justify this in the name of free enterprise and the good of their shareholders, but Peter Drucker has written that "free enterprise … can be justified only as being good for society." Corporate welfare subsidies distort free enterprise, harm society, and violate the biblical injunction for honest weights and measures.

Given the long history of tariffs as a way to protect favored industries, it is not surprising that Bennett spends most of his time on examples from the post-war period when governments shifted from seeking the protection of local industries through federal tariffs to providing cash and tax breaks to specific companies. He also examines the failed attempt to subsidize a supersonic transport (SST) plane in the 1960s and 1970s to compete with the Concorde, and the economic development incentives "arms race" among state and local governments.

In addition to detailing these examples of corporate welfare, Bennett also recounts some reform proposals, past and present. State and local governments have asked for a federal ban, and others have suggested taxing states based on the value of the subsidies they provide. The federal government and individual states have considered appointing commissions that would recommend a package of corporate welfare programs to eliminate in a single up-or-down vote. None of these has gone far, but their popularity is due to the difficulty of voluntary limits. As one example, soon after signing a pact with New York, Connecticut, and New York City in 1991, New Jersey Governor Jim Florio announced a $234 million fund aimed specifically at companies leaving New York. As Bennett describes it, "There have been mobsters' pacts that lasted longer and were signed by more trustworthy men."

Sunlight may be the best disinfectant. The SST failed because opponents showed how prior market-driven innovations in air transport cost less than what the government had sought to spend. A more recent example is Under Armour's decision to locate a new facility miles from Nike's Oregon headquarters and to renovate an adjacent park, including a track Nike built twenty years ago. Portland Parks & Recreation Commissioner Amanda Fritz told the *Wall Street Journal*, "Usually it's 'give us tax breaks and we'll create jobs,' but in this case it's 'no tax breaks, here's $5.5 million in parks improvements, and we'll create jobs.'" More positive examples such as Under Armour's could be weighed against more detailed accounting of the cost of incentives. One such review in 1999 found that targeted incentives are "based on poor data, unsound social science methods, and faulty economic reasoning and [are] largely a political activity."

While the prospects for reform are slight, precedents exist: deregulation of the airlines and other transportation in the 1970s, tax reform in the 1980s, and welfare reform in the 1990s. Bennett is a passionate advocate for reform who brings heat and light to the corrupt influence of government and business on one another, whether the Ex-Im Bank or barriers to entry from occupational licensing. Policymakers could use more such reminders.

—Joseph Coletti (e-mail: jdcoletti@gmail.com)
Former deputy director,
North Carolina Government Efficiency and Reform Initiative,
Cary, North Carolina

The End of Socialism
James R. Otteson
New York: Cambridge University Press, 2014 (224 pages)

James Otteson has written a comprehensive challenge to the socialist ideal that will be of interest to anyone concerned with the moral claims and implications of what are essentially the two competing economic systems of the world: socialism and capitalism. The former does not reduce simply, or even primarily, to public ownership of the means of production, according to the author. He understands economies to operate on a spectrum, with socialism being a system of more "centrally organized political-economic decision making," relative to capitalism. With this definition, Otteson alerts us to the fact that the "capitalist" or "market" systems often criticized by well-meaning Christians in fact tend more toward centralism than decentralism and are therefore more socialist-oriented than they might appear. The book is written for nonspecialists, but it nonetheless makes a powerful intellectual case that the moral values of socialism, which seem worthy in the abstract, lose their appeal when they are translated into public policy.

The critics of capitalism—even those who do not openly embrace socialism—are often implicit defenders of socialism, as Otteson defines it. For them, markets should only operate in accordance with considered moral judgments. But this rejection of "market triumphalism," in Michael Sandel's pregnant phrase, carries with it great, often unseen, risks, and should be placed in the category of "careful what you wish for." The most obvious problem is the enormous body of knowledge necessary to achieve, through calculated economic (generally redistributive) means, morally worthy ends. Furthermore, any centrally mandated redistributive outcome immediately faces the "Day Two Problem": people once again engage in a host of economic exchanges—including buying, selling, trading, gifting—based on "their labor, their love, their concern, their knowledge, their futures, their reputations. This means that new inequalities immediately arise." It also