THE FREEMAN Ideas On Liberty

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone: (800) 960–4FEE; (914) 591–7230
Fax: (914) 591–8910; E-mail: freeman@fee.org
FEE Home Page: www.fee.org

The Freeman: Ideas on Liberty is published by The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of $39.00 or more receive a subscription to *The Freeman: Ideas on Liberty*. For delivery outside the United States: $54.00 to Canada; $64.00 to all other countries. Student subscriptions are $10.00 for the nine-month academic year; $5.00 per semester. Additional copies of this issue of *The Freeman: Ideas on Liberty* are $4.00 each.

Bound volumes of *The Freeman* and *Ideas on Liberty* are available from The Foundation for calendar years 1972 to 2001. The magazine is available in microform from University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106.

Cover photo: Kylemore Abbey, County Galway, Ireland. Copyright © Cheryl Hogue/BRITSTOCK

PERSPECTIVE

Tax "Breaks" Aren't Subsidies

When is a subsidy not a subsidy? When it's a reduction in taxes. There's a baffling amount of confusion over what should be a simple matter. Tax reductions, credits, deductions, and exemptions are frequently mistaken for subsidies. This shouldn't be. Morally they are worlds apart.

A subsidy is a cash grant from the government. If you've ever seen those cacophonous television commercials with Matthew Lesko, you know what a subsidy is. At his website (www.lesko.com) you'll be told, "Get free money from the government just like the people you've seen on TV!" Elsewhere it says, "Everyone qualifies for something. Even millionaires are eligible."

These and other subsidies are direct transfers from the taxpayers to the beneficiaries. Obviously, money provided in subsidies is unavailable to be used by the taxpayers who earned it in the first place. (The government could create the money out of thin air, but that's another column.)

There are also less-direct subsidies. For example, when the government guarantees a loan, it causes money to be lent to one person rather than another (who doesn't have a guarantee). If the loan is not repaid, the government is committed to transferring money from the taxpayers to the lender. A tariff or import quota is also an indirect subsidy. Rather than giving cash to a domestic firm, the government limits foreign competition and helps boost prices. It's like giving out cash, only it doesn't show up in the federal budget.

In all these cases, government intervention enables people to obtain money they were not entitled to; the flip side is that someone else is deprived of money he is entitled to, or that he would have had legitimate access to.

In contrast, when someone is given any kind of "tax break," he keeps money he is entitled to. It doesn't matter if that person is "rich" and doesn't "need" the money. (Some people believe this should disqualify anyone from a tax cut.) Entitlement to the money one makes has nothing to do with need or how much one already has—at least not according to America's founding philosophy. Thus if a person retains some of his own money because of a government action, we should not condemn this as a subsidy.

Subsidies should be opposed. Opportunities to keep one's own money should not.

Needless to say, government can create great mischief by determining who can and cannot keep his own money. If mortgage interest is tax-deductible but rent is not, government encourages home buying. It is not the government's function to decide the best way to live and then to use the tax system to manipulate people into living that way. If given a free hand, there's no limit to what government can foist on us through tax credits and deductions. In fact, anything it can do through outright regulation it could probably do by amending the tax code. The benefit "given" to producers of ethanol is a lower fuel tax at the pump. Providing "tax breaks" can be "interventionist," in the sense that they can be designed to bring about ends selected by politicians and bureaucrats.

But that is no reason to oppose them, although it's sometimes tempting. No one should be begrudged the opportunity to keep his own money. In the face of a discriminatory tax cut, we should point out that it ought to apply to everyone (who pays taxes), and not just a narrow group of taxpayers. Efforts to widen exceptions may not succeed, since that would defeat the politicians' purpose, which after all is to manipulate private behavior. But at least we can pound home the point that it's better for people to spend their own money for their own objectives.

* * *

Who would have thought that, in this day of globalization and high technology, it would be so difficult to cash a check drawn on a bank in England? Robert Wright relates a personal experience.

The twentieth century was wracked by war, and the new century shows no signs being any different. Many theories of the causes of war have been propounded, but none surpassing that of Ludwig von Mises.

The Census Bureau reports an increase in the poverty rate. Are the statistics to be trusted? Robert Murphy takes a look.

In the nineteenth century, the American people got fed up with rent-seeking corruption in state government and did something about it through the constitutional process. James Rolph Edwards is looking to see if the same will happen at the national level.

When someone suddenly needs medicines and medical supplies, the benefits of the market economy shine. Ralph Hood found this out personally.

The Food and Drug Administration has thwarted attempts to import pharmaceutical drugs from Canada and elsewhere. Is there a good reason for this? Adam Summers doesn't think so.

An economic "miracle" has been taking place in western Europe. Can you guess in which country it is occurring? If not, Karl Sigfrid will tell you.

If the environmental lobby has its way, no chemical or technology could be used unless it was proved absolutely safe in advance. If this sounds unreasonable, Jim Peron agrees.

Our columnists have been busy. Richard Ebeling praises world trade. Donald Boudreaux debunks the trade-deficit scare. Burton Folsom commemorates the "veto president." Charles Baird sees bad labor news in New Zealand. And E. C. Pasour, Jr., reading the assertion that U.S. farm subsidies don't harm developing countries, responds, "It Just Ain't So!"

Books subjected to review in this issue are about the American empire, the history of markets, ideas that dominate our age, and psychiatric slavery.

—Sheldon Richman