

Cracking Down on Corporate Welfare

As the country continues to rack up mountains of debt, policymakers will need to dramatically cut spending in order to avoid economic calamity. “Whole programs need to be terminated,” writes Cato budget analyst Tad DeHaven, “and handouts to businesses are a good place to start.” In “**Corporate Welfare in the Federal Budget**” (Policy Analysis no. 703), DeHaven provides a menu of programs that should be eliminated if the \$100 billion in direct and indirect subsidies to businesses each year are to be brought under control. In pinpointing these programs, he illustrates how federal business subsidies cause more problems than they solve. These subsidies distort economic activity and undermine markets. “Policymakers do not possess special knowledge that



enables them to allocate capital more efficiently than markets,” DeHaven writes. In fact, their attempts to steer the market often leads to a corrupt relationship between business and government—with “economic decisions . . . made on the basis of politics.” Finally, corporate welfare violates the country’s bedrock constitutional principles. “Nowhere in the document is an open-ended power for Congress or the executive branch to choose favored businesses,” DeHaven writes. He concludes that policymakers should therefore eliminate these handouts and stop making bad decisions at everyone’s expense. For now, however, “the voice of the average tax-paying citizen is drowned out by the pro-spending echo chamber in Washington.”

Trading Taxes

The recent financial crisis and the ensuing global meltdown have spurred a number of proposals for avoiding similar catastrophes in the future. In “**Would a Financial Transaction Tax Affect Financial Market**

Activity?” (Policy Analysis no. 702), George H. K. Wang of George Mason University and Jot Yau of Seattle University analyze one of the more popular schemes—a tax which proponents say would “curb excessive financial market volatility, stabilize the markets, and raise revenues for various purposes.” Wang and Yau consider these claims and discredit each of them in turn. After reviewing the theoretical arguments for and against financial transaction taxes (FTTs), the authors delve into the empirical literature—applying the evidence to their own estimate of the potential impact of a transaction tax on U.S. futures markets. They find that the existing models—which employ a “naïve method”—fail to take into account the fact that U.S. futures trading is very sensitive, or “elastic.” “In other words, their models assume the imposition of a tax will not affect the trading volume in the market”—and thereby vastly overestimate the amount of revenue generated. “As such,” Wang and Yau write, “a transaction tax would reduce trading volume sig-

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nificantly, may not reduce price volatility, and might only raise a modest amount of tax revenue.” They conclude that, far from stabilizing market activity, an FTT “will likely drive business away from U.S. exchanges,” shifting it instead to untaxed foreign markets.

The Minimum Wage Myth

Since 1938 the federal government has imposed a minimum wage, and nearly every state now imposes its own wage floor as well. With income inequality a growing concern, states across the country are debating increases in the minimum wage. While the intention of these laws is to help low-income workers, decades of economic research show that minimum wages usually end up harming them, to the detriment of the broader economy. In **“The Negative Effect of Minimum Wage Laws”** (Policy Analysis no. 701), Mark Wilson, former deputy assistant secretary of Labor, writes that “minimum wages particularly stifle job opportunities for low-skill workers, youth, and minorities”—precisely those groups that policymakers are trying to help. “There is no ‘free lunch’ when the government mandates a minimum wage,” Wilson writes. By requiring that certain workers be paid higher wages, the government ensures that businesses will then make adjustments to pay for the added costs, such as reducing hiring, cutting employee work hours, reducing benefits, and charging higher prices. “These behavioral responses usually offset the positive labor market results that policymakers hope for,” he explains. Wilson reviews the economic models used to understand minimum wage laws and examines the empirical evidence—describing why most of the academic evidence points to negative effects from minimum wages. He also discusses why some studies may produce seemingly positive results. “Rather than pursuing policies that create winners and losers,”

Wilson concludes, “policymakers should focus on policies that generate faster economic growth to benefit all workers.”

Streetcar Collusions

Spurred by the promise of federal funding, more than 45 American cities are currently expanding, building, planning, or considering streetcar lines. But according to Cato senior fellow Randal O’Toole in **“The Great Streetcar Conspiracy”** (Policy Analysis no. 699), the trend amounts to nothing more than the latest urban planning fad. “Streetcars are a long obsolete technology,” he writes, and as such, replacing them with



higher quality transit options was a rational decision. Why, then, are so many lines being built? “The real push for streetcars comes from engineering firms that stand to earn millions of dollars designing and building streetcar lines,” O’Toole explains. These firms—along with their fellow “smooth-talking consultants and dissembling politicians”—put forth two main arguments for their plans. First, they claim, streetcars promote economic development—but, as O’Toole notes of the subsidies involved, “if streetcars were truly worthwhile, the people who ride them would gladly pay all of the costs.” Second, advocates claim that streetcars are “quality transit,” superior to buses in several ways. Again, however, O’Toole debunks this claim. “Their low average speeds, limited number of seats, and inflexibility make streetcars inferior to buses in every respect,” he writes—except, he adds, “in their ability to consume large amounts of taxpayer money.” As such, O’Toole writes, cities looking to enter the 21st century should con-

centrate on basic—and modern—services, including fixing streets and coordinating traffic signals.

The “Anti-Constitutionality” of IPAB

In 2010 the Obama administration created a new government agency called the Independent Payment Advisory Board (IPAB) as part of the Patient Protection and Affordable Care Act. The act authorized IPAB to cut Medicare payments even further. But the real reason Congress created the agency—according to Diane Cohen, senior attorney at the Goldwater Institute, and Michael Cannon, director of health policy studies at the Cato Institute—is “so that its decisions would automatically take effect, even in the face of popular resistance that would prevent Congress itself from enacting the same measures.” In **“The Independent Payment Advisory Board: PPACA’s Anti-Constitutional and Authoritarian Super-Legislature”** (Policy Analysis no. 700), the authors begin by describing IPAB’s structure, mission, powers, and scope—explaining that when the unelected officials on this board submit a legislative proposal, it automatically becomes law. “Citizens will have no power to challenge IPAB’s edicts in court,” they write—meaning that its members have “effectively unfettered power to impose taxes and ration care for all Americans.” As such, IPAB may be the most unconstitutional measure ever to pass Congress—a new “milestone on the road to serfdom,” as the authors put it. “IPAB truly is independent,” Cohen and Cannon explain, “but in the worst sense of the word: independent of Congress, independent of the president, independent of the judiciary, and independent of the will of the people.” It, in effect, attempts to amend the Constitution by statute, and it therefore may be more accurate to call it, not unconstitutional, but “anti-constitutional.” ■

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for you. Remember: we are talking about states passing laws to implement a federal law. All it takes to derail these new federal entitlements is one committee chairman—one bloc of legislators in either chamber—and that state can block the law’s health insur-

ance exchange and Medicaid expansion. You can begin to see just how vulnerable this law is in the wake of the Supreme Court ruling.

The public is likely to reward state officials who do block implementation of this law. As I said, before the ruling, 65 percent of the public and more than 70 percent of inde-

pendents wanted either part or all of the law struck down. Given that the Court invented a rather slippery rationale for leaving this law on the books, the backlash against Obamacare is likely to grow. The Obama health care law is now weaker and the path to repeal is clearer than it has ever been. ■