

POLICYMAKER'S GUIDE TO CORPORATE WELFARE

What is Corporate Welfare?

The Issue

Conservatives have long questioned whether welfare is the best way to help the least fortunate among us. This concern was highlighted in the 1995-96 welfare reform debate that led to a significant transformation of America's welfare system.

In his 1992 book *The Tragedy of American Compassion*, Marvin Olasky found that the culture of entitlement fostered by the welfare state eroded the traditional American virtues of seeking to better oneself and helping to better one's neighbor. Self-improvement morphed into dependency while charity gave way to complacency. Social mobility gave way to a seemingly permanent underclass that more and more has to turn to the government for help.

More recently, a debate over a different type of welfare has taken hold. Today, conservatives are challenging whether what is often called "corporate welfare" achieves its stated goal of boosting economic growth. And, as in the case of traditional welfare, the debate extends beyond the effectiveness of corporate welfare to the impact it has on the principles on which this country was founded—particularly that of liberty.

Corporate welfare, also known as economic development, is widely used throughout Texas and the nation. From local tax abatements to the Export-Import Bank, governments provide billions of dollars each year in benefits to businesses in an attempt to improve the outcomes of the marketplace. In Texas alone, tax abatements, renewable energy subsidies, development incentives, and direct payments total more than \$2 billion annually.

The Arguments

There is a spirited debate about what to do with some of Texas' economic development programs. Proponents of government economic development programs claim that they have a proven track record of growing the economy and creating high-paying jobs. While there are multiple responses to this claim, advocates for reform start by pointing out that Texas has proven there is even a better path to economic development—the Texas Model.

Since the beginning of the Great Recession, Texas has added 1.3 million jobs, far more than any other state and 39 percent of all non-farm U.S. jobs created during that time. Texas has also become the nation's top exporting state. Its \$289 billion in exports in 2014 accounted for more than 17 percent of the U.S. total. And Texas' adjusted poverty rate is second lowest among the 12 largest states.

The evidence that the Texas Model outperforms corporate welfare is compelling. But it is also important to understand that

corporate welfare has the same corrosive effects as welfare for individuals and fails to live up to the core American ideal of protecting "life, liberty, and the pursuit of happiness."

For instance, if a large corporation used its expertise to break into the bank accounts of Texans and transfer millions of dollars into its own account, everyone would condemn this action as theft. Those who ordered and conducted the raids would be prosecuted and locked in jail. However, let the government take the money from Texans' bank accounts and then give it to the same company and it is called economic development.

Additionally, proponents of corporate welfare suffer from a false belief in central planning. They believe that either they or government planners can best determine what technology has the best chance of success, which jobs and products best supply society's needs, and where best to expend scarce supplies of capital. They believe that they just can't sit back and let the economy take care of itself; they have to take money and property from citizens in order to solve the citizens' problems for them.

Recommendations

Texas is the national leader in increasing prosperity for its citizens. It has arrived at this point because it has relied on the free market model of economic development and protected the rights of its citizens while largely rejecting the government approach. Building upon this approach, Texas should reduce or eliminate current economic development programs, restrain growth in overall government spending and regulation, and reduce taxes. Relying on markets is the best way to promote liberty and boost the economy. ★

Resources

[*Liberty or Economic Growth? We Can Have Both if We Rely on the Free Market*](#) by Bill Peacock, Texas Public Policy Foundation (April 2016).

[*Rivalry Helps Drive Florida and Texas to Economic Success*](#) by Bill Peacock, Texas Public Policy Foundation (May 2016).

[*Spotlight: The Texas Enterprise Fund*](#) by Bill Peacock, Texas Public Policy Foundation (Dec. 2015).

[*Why Texas Rocks, Economic-Freedom Style*](#) by Kathleen Hunker and Bill Peacock, Texas Public Policy Foundation (Aug. 2015).

[*Growing the Economy without Growing Government: Eliminating Taxpayer-funded Corporate Subsidies*](#) by Bill Peacock, Texas Public Policy Foundation (Sept. 2014).

