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## **The Federal Ripoff** **by George C. Leef**

[The Big Ripoff: How Big Business and Big Government Steal Your Money](#) by Timothy P. Carney (Wiley, 2006); 285 pages; \$24.95.

Frédéric Bastiat called it legal plunder — the process by which people and organizations use their political connections to obtain wealth that doesn't belong to them. When a government has the power to enact laws and regulations that confer unearned benefits on the favored few, as virtually all do, it is as certain as anything can be in this world that unscrupulous people will find ways to manipulate that power.

The temptation to play the political game as a means to increasing profits has long attracted people in business. The more of them who have given in to the temptation, the harder it has become for those who disdain politics to hold true to their belief in success or failure on merit. Today, nearly every business, either on its own or through a trade association, employs lobbyists who try to steer government policy in a “favorable” direction.

Sometimes, the political game is played defensively — that is, to fend off damaging laws and regulations. Often, however, businesses seek to use governmental power to raise prices, stifle competition, and obtain inputs it needs at artificially low prices. This is usually done very quietly, so as to maintain the illusion that business is interested in protecting the free market. The bitter truth is that most business executives believe in free markets *for everyone else*; for *themselves* they want the comfortable life of governmental lapdogs.

In *The Big Ripoff*, Timothy Carney smashes the illusion that most businesses are staunch defenders of capitalism. Far from it — a great many business leaders in the United States, he shows, are constantly scheming for political favors. They cozy up to both political parties, offering money and lavish treatment to politicians in return for what they want. And what they want is nothing like the rough and tumble world of laissez faire. Carney demonstrates that there is a tremendous amount of corporate welfare in the United States and that it's a forlorn hope to

believe that either the Republicans or the Democrats are interested in a return to the days when businesses would sink or swim on their own.

Carney makes his case with numerous examples. Some are recent, but he also goes back a century or more to show that the partnership of big business and government is not a new phenomenon. Consider the Meat Inspection Act of 1906. If Americans know anything about it at all, they probably have heard that it came about because Upton Sinclair's exposé of the meat industry in his book *The Jungle* provoked politicians into passing a law to protect the public health. They *presume* that the law was opposed by the meat-packing industry, which they naturally believe wanted no government regulation at all.

That presumption simply isn't true. Carney shows that the largest firms in the business had been trying to get the federal government to enact a scheme of regulation that would help to minimize competition and were delighted to take advantage of the sensation created by Sinclair's book to get the government to go along. While quality and safety were the catch-phrases that the public heard, the legislation was actually designed to reduce competition so the surviving businesses could charge more.

Just as incumbent politicians think that apparently neutral and high-minded rules should protect them against challengers, big business leaders think that regulations (again, seemingly fair and beneficial) should be in place to shield them against interlopers. The funny thing is that business learned that trick long before the politicians did; political *laissez faire* lasted until the first "campaign reform" legislation in the mid 1970s. Business persuaded Congress to pass incumbent-protection legislation for it a century ago.

### **A history of regulation**

During World War I, the Wilson administration gave the business world a big dose of federal control — and many "progressives" in business liked it just fine. According to Grosvenor Clarkson, a member of the War Industries Board,

It is little wonder that the men who dealt with the industries of a nation meditated with a sort of intellectual contempt on the huge hit-and-miss confusion of peacetime industry, with its perpetual cycle of surfeit and dearth and its internal attempt at adjustment after the event. From their meditations arose dreams of an ordered economic world. . . . They beheld the whole trade of the world carefully computed and registered in Washington.

Carney acidly comments, "The 'confusion' Clarkson spoke about was nothing else than the power that individual consumers, acting according to their own tastes, have over a free economy. The 'ordered economic world' business wanted was, frankly, socialism." (Here, I'll quibble with the author a bit. The word he should have used was not "socialism," but "fascism.") After the war

ended and President Harding junked the federal controls on industry in 1921, many big business leaders were unhappy over what they saw as a retrograde step.

Franklin Roosevelt is famous for his attacks on businessmen as “economic royalists,” but many big business leaders were quite content to be thrown into his briar patch of governmental controls because they saw them as beneficial. Beneficial, that is, for their firms in the short run. They did not contemplate the long-run effects of government economic planning. Some, in fact, thought that the New Deal did not go far enough. Gerard Swope, president of General Electric, wrote that he wanted to see a time when

industry would no longer operate in independent units, but as a whole, according to rules laid down by a trade association of which every unit employing over fifty men is a member — the whole supervised by some federal agency like the Federal Trade Commission.

One of Roosevelt’s lasting pro-business, anti-market innovations is the Export-Import Bank. Initially created by executive order as a way to circumvent congressional restrictions on trade with the Soviet Union, the bank was given greater status and authority when Congress passed the Export-Import Bank Act in 1945. The function of Ex-Im is to support American exporters by helping finance the purchase of their goods, primarily through loans to foreign governments. U.S. taxpayers were exposed to \$63 billion of risk in 2005 owing to Ex-Im loans and guarantees. Among the large beneficiaries of Ex-Im financing are Boeing, General Electric, Bechtel, and Halliburton. Having American taxpayers standing behind the loans that make some of their sales possible undoubtedly benefits those business giants. In principle, there is no justification for having the federal government in the business-financing business, but Carney’s discussion of Ex-Im would have been more thorough if he had included data on the extent to which it has had to write off bad loans.

### **Takings and regulation**

Another means by which business gains from governmental power is the seizure of land by eminent domain. Carney recounts several stories of small business owners who found themselves facing eviction from their property because it was coveted by some large developer. Politicians, whether “liberal” or “conservative,” frequently go along with big business interests when they decide that they would like property belonging to someone else but don’t want to acquire it through voluntary means. Cheap land is alluring to business, and the prospect of higher tax revenues is alluring to politicians. The fact that eminent domain means the use of force against people — who usually are not fully compensated for their loss — does not trouble either big business moguls or their political henchmen.

And then we have the garden-variety anti-competitive regulation that many businesses seek and that politicians are only too willing to dispense. (That is why, Carney argues, business political giving is roughly evenly split between Republicans and Democrats. Whoever is in power, business executives want leverage for the continuation of old favors and the creation of new ones.) Just to give one ludicrous example, Arizona has a regulation on weed spraying that makes it illegal for unlicensed workers to spray to kill weeds. Getting the license requires proof that one has 3,000 hours of weed-spraying experience. Existing companies that do landscaping and gardening work are thus protected against competition from new firms. This regulatory scheme also gives agents of the Arizona Structural Pest Control Commission something to do — slap stiff fines on people who unknowingly violate the law. Again, it's a win for existing businesses but a big loss for the free economy. Cases like that are almost innumerable; the statute books of every state are loaded with similar regulations.

Ethanol is yet another instance of big government's aiding big business at the expense of the consumer, and Carney does a terrific job of unmasking the unholy alliance between ethanol giant Archer Daniels Midland and its many political accomplices — once again, from both parties. Ethanol wouldn't survive the test of the market (at least in the present); but through the manipulation of politicians, this company has managed to ensure itself a flow of profits at the expense of consumers and motorists.

Finally we come to one of the most fiendishly clever schemes ever devised to stifle the free market — the Tobacco Master Settlement. While it is not clear from the book that the big tobacco companies were particularly dissatisfied with the status quo prior to the involvement of the attorneys general of numerous states and their onslaught of lawsuits to recoup the ostensibly higher Medicaid costs the states bore because of smoking — Big Tobacco had successfully defended against liability in many individual lawsuits — Carney shows that they were quite happy to go along with the deal. The master settlement effectively cartelized the tobacco industry and stifled competition from new firms in return for a steady stream of payments to state governments. It's a mammoth protection racket. Tobacco companies pay up a portion of their profits each year to the states, which in turn protect their new assets (the tobacco cartel) from competition and lawsuits. For people who never understood what was going on behind the headlines, Carney's chapter on tobacco will be a real eye-opener.

The case is closed. After reading *The Big Ripoff*, it is just impossible to entertain any longer the notion either that Republicans are the party of laissez faire or that Democrats are the party that is against big business. With only a very few exceptions (Rep. Ron Paul being the most notable), almost all politicians are to some degree captive to the idea that government needs to help business — which will in return help them to stay in power.

Can anything be done? Carney doesn't end with a rousing "here's how we can turn the tide" chapter. I suspect that's because he doesn't see any way to turn the tide. The Republicrats

like our managed, regulated economy because it ensures steady support for them from the many business interests that profit from government. And most business executives like the comfort that big government provides them. So, while many politicians denounce corporate welfare, hardly any really wants to do something about it.

At the root of most of our problems in the United States is this fact: the people don't understand what is going on with the government. Obscured by political mythology, the truth that big government and big business dance together at the expense of our liberty and property weighs on few minds. Nothing will be done to eliminate corporate welfare until large numbers of people comprehend the reality that public officials use government to grant favors to businesses that lick their boots. With this whistle-blowing book, Tim Carney has hastened the arrival of that day.

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