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Ripping Off the Taxpayers **by Thomas E. Woods, Jr.**

The Big Ripoff: How Big Business and Big Government Steal Your Money

by Timothy P. Carney (Hoboken, N.J.: John Wiley & Sons, 2006); 285 pages; \$24.95.

Frédéric Bastiat called it legal plunder when the state expropriated one set of property owners for the benefit of another. Whether it loots the workers to benefit the farmers, the farmers to benefit the workers, or everybody to benefit Boeing, the state damages and impoverishes society. That is partly because once the process of legal plunder is allowed to begin, it becomes extremely difficult to stop it, as more and more groups employ state machinery to loot or cripple others — or simply to compensate for the loot and plunder being carried out by their rivals. The result is a society in a constant condition of low-intensity civil war, in which ever more energy is diverted from productive activity and toward frenetic lobbying for political favors.

The general public has been led to believe that the business class favors the unhampered market and wants government only to stay out of the way of its accumulation of wealth. The truth, of course, is that those who populate the business world possess the same moral foibles as the rest of us, including the inclination to seek after wealth with the least possible exertion. That is exactly what the state makes possible: instead of earning a living by satisfying the needs of your fellow man, you can enrich yourself far less strenuously by employing the state machinery to loot him.

What Tim Carney shows in *The Big Ripoff* is that in plenty of cases big business actually welcomes government regulation and taxation, typically because for one reason or another it thereby expects to acquire a competitive edge against its competitors. Company spokesmen don't put it quite that way, of course, all too happy to cloak their support for new regulation in the idiom of the common good, to which they claim to be selflessly devoted.

In the course of a brief history of American business, Carney shows that such support for government intervention has been far too common to be written off as mere curiosities or historically uninteresting deviations from the norm. He also quotes a great many examples of

journalists and reporters expressing surprise at the discovery that some business interest was pushing for a particular tax or regulation. In their world, things are elegantly simple: wicked and selfish businessmen are brought into line by the wise regulation of the public sector's selfless crusaders for justice. Carney muddies these waters with (among other things) the revealing anecdotal point that in the 2002 congressional campaign, leftist Barbara Lee (D-Calif.) collected four times as much money from business PACs as did the resolutely pro-market Ron Paul (R-Texas).

The real Enron story

Carney's coverage of the Enron scandal is the proverbial chapter that's worth the price of the book. Opponents of the market economy had a field day when Enron's financial shenanigans came to light. A liberal San Francisco *Chronicle* columnist, claiming that "the Enron scandal makes it clear that the unfettered free market does not work," summed up what so many were saying in 2001 and 2002. He added that "Enron makes that whole Ayn Rand 'Fountainhead' thing look a little silly, too. Who is John Galt? Ken Lay." (John Galt appears in *Atlas Shrugged*, not *The Fountainhead*, but never mind.)

The Cato Institute's Jerry Taylor was closer to the truth when he described Enron on balance as "an enemy, not an ally of free markets. Enron was more interested in rigging the marketplace with rules and regulations to advantage itself at the expense of competitors and consumers than in making money the old-fashioned way — by earning it honestly from their customers through voluntary trade." Building on this observation, Carney shows that Enron, far from being a creature of the free market, was a strong supporter of a variety of government regulations, and reached the heights it did largely thanks to government favors. Even some of its strange accounting practices had been approved by the Securities and Exchange Commission (thereby giving the public a false sense of security regarding Enron's actual health).

Thus, Ken Lay, the wicked capitalist, made high-profile appeals in favor of the Kyoto Protocol on global warming, describing it as "a tremendous opportunity to stimulate realistic climate solutions." He wrote in an e-mailed message that Kyoto would "do more to promote Enron's business than almost any other regulatory initiative outside of restructuring the energy and natural gas industries in Europe and the United States." Since Enron was primarily an energy broker, it could easily become the major trader of CO2 credits that Congress would very likely have created in order to help American industry come into compliance. On top of that, since Enron owned natural gas pipelines and dealt mainly in natural gas — far cleaner than coal or oil in terms of CO2 emissions — the Kyoto restrictions would give it a competitive edge.

Enron, Carney shows, was on the receiving end of countless waves of government subsidies. It also manipulated the bizarre regulatory thicket that was the California energy market in grotesquely anti-social ways that enriched Enron at the expense, quite literally, of everyone

else. The whole story has to be read to be believed. But it's one that could not have occurred in a free market.

Corporate tax cuts and welfare

Big business has also opposed tax cuts or supported tax increases, according to Carney. For example, Bill Gates and Warren Buffett have been portrayed in the media as selfless benefactors for opposing the elimination of the estate tax. As men of wealth themselves, the media line goes, these men ought to favor the abolition of the tax, but instead they have publicly campaigned for its retention. What men of the people these are!

Carney suggests that there may be more to the Gates/Buffett stance than meets the eye. For one thing, the estate tax will never hit Microsoft, since, as a publicly held corporation, its owner will never die. Moreover, if repeal of the estate tax is made revenue-neutral, additional taxes to make up the shortfall will very likely fall on corporations.

A family-owned business is liable to be devastated by the estate tax. A son inheriting the family business — whose plant and equipment are worth, say, \$2 million — from his father and who has been running the business for five years could be hit with a tax bill of \$500,000, an amount he couldn't possibly pay out of the company's annual profits. He has to sell, and fast.

It so happens that an avid buyer of businesses desperate to sell in the face of a massive estate-tax bill is — surprise! — Warren Buffett. In addition to the *Buffalo News*, Carney tells us, “other motivated sellers facing the estate tax who have found a willing buyer in Warren Buffett [include] Dairy Queen, a Utah furniture store, and a Nebraska jeweler.”

Now it could be that Buffett's support for the estate tax has nothing at all to do with self-interest, and instead derives from a pristine devotion to egalitarian ideology. But shouldn't some of these facts at least be mentioned in media coverage of Buffett and his pro-tax crusade?

It would be difficult to discuss corporate welfare without mentioning Boeing. In 2005 Carney wrote an article for Canada's *Financial Post* called “Subsidy Queens,” criticizing both Europe's Airbus and America's Boeing for the government assistance each had received. (Between 1998 and 2005, Boeing was awarded \$33 billion of the Export-Import Bank's \$63.5 billion in loans and long-term guarantees.) Boeing vice president Thomas Downey wrote to the *Post* congratulating Carney for “refuting the weary arguments used by Airbus and the European Union to defend their direct subsidies for developing new airplane models.”

Downey wasn't quite so happy about Carney's criticism of Boeing — whose assistance from the Export-Import Bank, Downey insisted, shouldn't be considered a subsidy: “These guarantees do indeed help foreign customers secure the private-sector loans they need to buy American goods, but they are not exclusive to Boeing or airplanes — nor are they prohibited by the World Trade Organization.” If there is an argument in there for why these subsidies aren't subsidies, it certainly isn't clear. Downey is right that these subsidies don't go to Boeing or

airplanes alone — though he might have acknowledged that 52 percent of all Ex-Im loans go to Boeing in particular.

Of all the tales of corporate welfare and looting that Carney has to tell, though, my personal favorite involves the Union Oil Company of California (Unocal). Unocal secured a U.S. patent for its method of reducing harmful emissions from gasoline-powered vehicles. Several months after getting the patent, Unocal received more good news: the California Air Resources Board had released its final clean gasoline rules, and it turns out that in order to comply with California law you had to use the very method of emissions reduction for which Unocal had just received a patent.

Oh, and the CARB knew that was the right method to use because ... Unocal told them so. Unocal helped to draft California's clean-air rules at the very moment it had a patent pending on the method it was proposing for universal adoption. And that, in turn, meant that Unocal could demand licensing fees from anyone who was legally selling oil in California. A lawsuit by Exxon, Mobil, Chevron, Texaco, Shell, and other refiners came to naught as Unocal successfully counter-sued for patent infringement.

On top of all this, Unocal also benefited from the new regulations because they disproportionately harmed its smaller competitors, despite the longer period of time they had been granted in order to comply with the rules. (Unocal had lobbied against even this minor allowance, by the way.)

With *The Big Ripoff*, Tim Carney has shown the hidden truths that can be uncovered when the skills and instincts of a good journalist combine with an informed understanding of political economy. If only our historians had the same acumen, for then we might at last puncture the comic-book, public-heroes-versus-private-villains version of American history that has done so much to obscure the true dynamics at work among state, business, and market.

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This article was originally published in the February 2007 edition of *Freedom Daily*.