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Policy Prescription

Independent, principled state policy fostering limited and responsible government, free enterprise, and a robust civil society.

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Policymaker's Guide to Evaluating Corporate Welfare - Summary*

Policymakers often decry central planning as ill-advised or un-American. However, these same policymakers implement economic development subsidies that are, by their very nature, central planning. By one measure, Oklahoma grants the ninth most corporate subsidies of any state in the union. These policies are bad economics. They often discriminate against homegrown taxpayers and otherwise pit Oklahomans against one another by violating fundamental principles of equality before the law and economic neutrality.

Why Corporate Subsidies/Incentives Are Bad

Negative economic impacts range from artificially rearranging how people live their lives, to raising the cost of living, to redistributing income, to negatively impacting economic growth. When favorable tax treatment and outright grants prevail, the displacement that occurs might not be progress at all, or we might lose out on even greater progress that would have prevailed had purely market-based considerations been in play.

A Guide to Avoid Corporate Welfare

The following questions aid in thoughtful evaluation of proposed and existing subsidies in order to avoid corporate welfare in the form of grants, direct subsidies and specially favored tax treatment.

Question 1:

Is this a direct grant of funds or reduction in taxes to a private entity without an expectation of direct consideration (performance of services or provision of goods) to the government making the grant?

If the answer to this question is *Yes*, then the program or action that results in the grant or tax consideration is very likely an example of corporate welfare.

If the answer is *No*, the program or action in question is likely legitimate, although the remaining questions should still be asked.

Question 2:

Does a grant of funds or tax consideration apply to every similarly-situated business?

If the answer to this question is *Yes*, then the program or action in question is likely *not* corporate welfare. It is probably a tax cut, refund, or effort to avoid distortions otherwise caused by the tax code (See question 4).

If the answer to this question is *No*, then this is very likely an example of corporate welfare.

Question 3:

Does an apparent tax advantage put businesses on an equal footing?

If the answer is *Yes*, this is obviously not corporate welfare.

If the answer is *No*, then the apparent tax advantage is exactly that and is an example of corporate welfare. An excellent example is the wind generation tax credit, now repealed in Oklahoma, but ongoing on a grandfathered basis.

Question 4:

Is the purpose of this policy to avoid tax pyramiding?

If the answer is *Yes*, this is likely an example of well-considered tax policy to avoid economic distortion.

If the answer is *No*, then the policy cannot be dismissed as example of corporate welfare.

Question 5:

Is the policy compensating a company for public infrastructure the company provided?

If the answer is *Yes*, then the policy would not be an example of corporate welfare.

If the answer is *No*, then the policy could be an example of corporate welfare.

A bottom-line principle is that the benefits from spending taxpayer funds or from redistributing tax burdens must be *unambiguous, obvious, and universal*.

1889 Institute
1401 N. Lincoln Boulevard, Suite 175
Oklahoma City, OK 73104
1889institute.org

*Summary of: Tyler Williamson, Spencer Cadavero, and Byron Schlomach, *Policymaker's Guide to Evaluating Corporate Welfare*, 1889 Institute Policy Prescription, September 2020, available at: **www.1889institute.org/**

The State's Failed Attempt to Evaluate Itself

The Incentive Evaluation Commission (IEC) was formed in 2015 to annually evaluate existing tax subsidies, ostensibly to eliminate as many of them as possible. Its recommendations are ignored, or it claims as recommendations policies already implemented or around which consensus has already materialized. Clearly, the IEC provides no legitimate service to the state.

Solutions

- Generally Sound Tax Policy
- Absolutely No Incentives for Retail and Distribution
- An Interstate Compact to End Corporate Welfare