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Corporate welfare

Vermont ranks sixth among the states in per-capita spending for tax breaks for business. That’s according to an extensive review by The New York Times showing how all across the country companies play one region against another to exact a variety of tax benefits.

It is easy to see why Vermont and other states decide they need to dole out subsidies and other tax breaks for companies. Big national or international companies can choose where they are going to build a plant, or whether they will stay there. They have the leverage, and as they make their decisions they can negotiate deals with states eager to add jobs.

Vermonters face the continuous worry that companies already here will pack up and move to North Carolina or China. And Vermont development officials know that companies considering whether to move to Vermont may also be looking at offers in other states where officials are willing to exempt them from a big share of their tax load.

The result is a race to the bottom with companies exploiting the eagerness of state or local officials to slash taxes in order to land a big employer. Often, as in Vermont, tax breaks come with conditions. In Vermont employers have to show that the subsidies will create jobs that would not otherwise be created. But sometimes, companies benefit from outright giveaways.

According to the Times study, the top beneficiaries in Vermont over the past 15 years have been Husky Injection Molding Systems, IDX Systems Corp., King Arthur Flour, Dealer.com, Skypoint Solar, Mack Molding and Green Mountain Coffee Roasters. Vermonters appreciate that these companies employ people, but there is a cost to the benefits these companies are receiving.

The millions of dollars in tax breaks padding those bottom lines are dollars that must be provided by someone else. And in recent years, that someone else has been hard pressed to continue to support the important services provided by the public sector. The result is that as big companies add to their profits, cities and states are slashing school budgets, closing libraries and deferring repairs on decrepit roads and bridges.

Journalist David Cay Johnston has detailed the many ways that companies take advantage of the system, producing a society where inequality in wealth is comparable to that in Brazil, Mexico or Russia. In his book “Free Lunch,” he shows how the margin of profit for some companies consists entirely of the money they get from the government.

Increasingly, the mechanisms of our economy are designed to funnel money upward. Banks and credit card companies, until recent reforms, were allowed to charge usurious rates. Telecommunications companies charge more in the United States for service, and provide less service, than they do in Europe. Also, gambling, once considered a vice whose primary effect is to impoverish people, has now become prevalent and encouraged by government. It still impoverishes people, but it also enriches casino owners, some of whom enjoy government subsidies.

It is hard to break free of the iron grip of corporations. The threat that they will relocate or outsource is real. But if recognition of the problem were to spread and states stopped competing for the privilege of being fleeced, then companies would have to incorporate their share of taxes into their bottom line. Consumers could cover it. Meanwhile, cities and states would regain the revenues they need to fulfill their obligations to their citizens.

President Obama's insistence that the wealthiest taxpayers must pay higher taxes is happening in the context of a wider awareness about the ways that the system has been stacked against ordinary citizens for the benefit of the rich. As Johnston reports, the richest 300,000 Americans in 2005 earned as much as the bottom 150 million. This did not happen by accident. The rich are among the stockholders benefiting from the tax favoritism that cities and states have practiced, shifting the tax burden away from companies and toward ordinary taxpayers. It's happening in Vermont more than most places. In time it may change.