Anyone who has been in the habit of watching television late at night for more than a few years has probably seen the commercials where the guy with the Einstein hairdo enthusiastically pitches his book, which, supposedly, is a guide to how to get “free money” from government programs. One’s first reaction might be to simply dismiss this as another infomercial scam. However, although the advice in this particular book may have been correct or not, it is certainly true that there are many government programs that give out money to a variety of groups of people, such as farmers, artists, and students. Now, of course, to the average person, “free money” sounds great. But, basic economics (and common sense) tells us that, “There Ain’t No Such Thing as a Free Lunch.” In other words, every benefit has an associated cost. Now, if government subsidies are “free” to the recipient, then who bears the cost? Obviously, the cost is borne by the taxpayers. So, when the government takes money out of our paychecks every week, what are we paying for? What justification is there for forcibly taking money from those who have earned it and giving it to others? Of course, if there is no justification, then the massive structure of government subsidies in place in our society is nothing more than highway robbery.

Now, in order to determine whether subsidies are worthwhile or not, we must examine the arguments for and against them. Of course, there are almost as many different subsidies as there are politicians to administer them, but, in general, the justification for each of them is the same: the concept of market failure. A basic definition of this concept is: “the failure of a…system of price-market institutions to sustain ‘desirable’ activities or to estop ‘undesirable’ activities.” (Bator 1958, p. 351) In other words, the purpose of subsidies is to accomplish some end for which the market alone is not sufficient.
Usually, this end will be noneconomic in nature, since it is difficult to argue that the market does not promote the most economically efficient outcome. In other words, there must be more of the product in question because its production causes positive externalities; that is, it provides benefits other than the ones involved in the economic calculations of the consumers and producers, and thus, since all that decides how much of a product will be sold under a free market is those calculations, the quantity produced under the free market is not socially optimal. (Saunders 2005, p. 1) We will consider two types of these externalities.

The first type is an externality that provides a benefit to everyone in society, whether they participate in the market in question or not. This type of externality is supposedly provided by art subsidies; that is, money paid by the government to producers of paintings, sculpture, plays, or anything else that can be construed to fit the basic definition of art. This basic definition is that art should provoke an aesthetic response (Galef 2006); that is, that it should be beautiful, thought-provoking, or both; that it should expand the minds of its audience. Now, the argument says that any person deprived of the opportunity to expand the mind through the arts “succumbs to mental torpor and is…incapable of…conceiving any generous, noble, or tender sentiment.” (De Marchi and Greene 2005, p. 2) In other words, if people are allowed to just go about repetitive jobs without any exposure to the arts, they degenerate into robots, incapable of showing any spark of human feeling. Similarly, it is believed that exposing children to art in school stimulates the intellect of children, helping them “stay in school and prevent delinquency, provid[ing] paths to lifelong learning and inspir[ing] creativity.” (Robinson 2006) Thus, it is believed that everyone, rich and poor, young and old, should be exposed to the arts,
as a means of preserving our very humanity. This is the main reason used whenever a justification for art subsidies is called for: that the poor should not have their very humanity taken from them by their inability to pay for art. The externality argument says that this increase in the level of humanity provides benefits to society as a whole, because people that are more human treat one another better, and children that are exposed to art become the parents, teachers, and leaders of tomorrow, who are responsible for the continued advance of this cultural growth. These benefits cannot be measured in terms of money, so the market, which deals exclusively in money, cannot possibly provide enough art to sufficiently provide this benefit. In other words, “[T]he market only does one thing: it tells us the price of everything. A culture decides what things in society are beyond price.” (Peterson 2004)

On the other hand, if an economic justification for art subsidies is called for, the idea of the arts spending multiplier is often introduced; that is, the idea that art subsidies stimulate the economy by energizing the arts industry to be able to produce more art, thus creating more jobs and bringing in tax revenue from the sale of the art. It is usually stated that the tax revenue collected from the art industry is several times the money spent on the original subsidy.

(There are other reasons often used, but these are the ones which have the most to do with economics.) Now, a reader who knows anything about the aforesaid subject may immediately notice a glaring flaw in the arts spending multiplier argument; namely, that the art industry is not the only industry that has the potential to make profits on investments put into it. In fact, any industry that is making money will experience a multiplier effect, creating jobs and tax revenue; and the more successful the industry, the
higher the multiplier. Now, it stands to reason that if the arts were successful enough to have a higher multiplier effect than any other industry, they would not need to be subsidized; people would be complaining about the windfall profits of Big Art instead of Big Oil. As it is, taxes are collected from other industries (and from individuals who might invest in other industries) and given to the art industry, and, since taxes in America are based on income, the more successful the business or investor, the more taxes are collected from them. So, due to the perversity of our tax system, the higher the multiplier in an industry, the more it is soaked by Uncle Sam, decreasing the amount of income it has with which to multiply. Thus, art subsidies do not increase the multiplier effect, but cause a net decrease, because income is taken from productive members of society who create high multiplier effects and redistributed to artists who create lower multiplier effects.

So, it is not economically justifiable to say that subsidizing art (or anything else, for that matter) increases overall economic activity. However, what about the idea of externalities? While it is very difficult to dispute that good art, that is, art that provides an aesthetic benefit to its consumers, provides far-reaching benefits, there are substantial grounds for contending that subsidies do not tend to promote good art. We tend to see in reality that subsidies tend to create a sort of Scylla and Charybdis for the artist.

The Scylla of art subsidies rears its multiple ugly heads when the subsidies are given out with little or no administrative control: through tax deductions, grants to nonprofit organizations or state governments, or leaving the responsibility for awarding grants to panels of artists instead of bureaucrats, all of which methods the NEA used before 1989. (Lewis and Brooks 2005, p. 2) The result of this is to make the artist less dependent for
his bread and butter on satisfying the consumers, since he can count on getting a check
directly or indirectly from the government. This allows artists to arrogantly disregard the
preferences of the public and turn out material like paintings of the Virgin Mary covered
in elephant dung or the one-word poem “lighght”, which tend to mystify or offend, rather
than enlighten, the public. It can also be noted, as shown by the latter example, that this
not only allows artists to be arrogant and offensive, but also to be just plain lazy.
Receiving a subsidy that is not necessarily tied to any standard of public appreciation
allows artists to churn out things like “lighght”, blank canvases, fingerpaint works
indistinguishable from kindergarten fare, and other sorts of art requiring very little effort
on the part of the artist. Either way, when these sorts of art are exposed to the public,
Scylla tears them to pieces with the mass disapproval of the public.

Charybdis opens its maw at the other alternative for administration of art subsidies;
that is, distributing the subsidies under political oversight, as the NEA started to do after
the storms of controversy in the early 1990s, and as always has been done when the
government itself commissions art to decorate a park, subway station, public building, or
anything else. Having politicians breathing down their necks takes the artists’ temptation
to be arrogant or lazy away, since politicians’ jobs rely on pleasing the public. However,
the politicians, unlike businesses in the market, cannot focus on pleasing a certain
segment of the public, but must please the entire public. Also, politicians have their own
agenda, which often has little to do with the advancement of art. Thus, when politicians
become involved in the production of art, artists tend to become the politicians’ “vassals
in the war for our minds” (Frank 2004), producing either state-sanctioned propaganda or,
when that is not called for, artistic pablum that refrains from using any original
techniques or referring to any controversial subjects, so that it cannot possibly offend anyone in any way. And so, when the ship of art subsidy goes in this direction, we see Charybdis sucking artists down into the abyss of artistic mediocrity.

So, it becomes clear that art subsidies, although they certainly increase the amount of art produced, also greatly decrease the average quality of that art. Now, it is fairly obvious that, in the art world, quality is more important than quantity, since a great work of art can be copied or performed again and again and spread throughout the world, while a mediocre work of art isn’t good for much more than decoration, and a bad work of art is only fit for target practice. Therefore, art subsidies are not good for the production of new art. Now, of course, some may still argue that art subsidies are good for spreading the old masterpieces by funding classical concerts, operas, performances of Shakespearean plays, and so on. While it is true that these are more beneficial than the avant-garde new art, it must be pointed out that these truly fine arts are being spread quite well by the market. Government aid to performances of established fine arts tends to be insignificant compared to private donations. (Jarvik 1997) It then must be considered that even these subsidies involve a tradeoff: since they are paid for with tax revenue, they take money from productive uses and redirect it toward raising the supply of art above the level decided by the market. Therefore, while it may be beneficial to increase the amount of fine art available, this is counterbalanced by the loss of the other things the money could have been used for. Since the government does not collect taxes on the basis of opportunity cost, there is no way of knowing for sure whether these subsidies are actually beneficial or not.
So, we have seen through an in depth look that art subsidies do not, in fact, accomplish the ends that they set out to accomplish. Now, of course, they are just one of the more prominent types of subsidies that are supposed to provide some sort of social benefit, but the same principle applies whether you are talking about provocative paintings or electric cars: “Those who particularly flourish on the free market…will be those most adept at serving their fellow men; those who succeed in the political struggle for subsidies, on the other hand, will be those most adept at…winning favors from wielders of coercion.” (Rothbard 2004 p. 942) In other words, if the way to make money in a business is not providing the best possible product for the lowest possible price, but instead being the best at winning over bureaucrats and legislators, then the product that is finally produced will be produced by the firm that plays politics the best, which, given the fact that efficiency is increased by specialization, will probably not the firm that produces the best, since the firm that specializes in producing the best product will be beaten out for the subsidy by the firm that specializes in hiring the best lobbyists. Thus, the consumers wind up with an inferior product that does not accomplish the end it was originally supposed to achieve in the first place.

Now, we have seen the first type of externality, but what is the second? The second type of externality that is supposedly promoted by subsidies is the fulfillment of moral obligation. The idea here is that there are certain moral duties that are not economically beneficial, so the market does not provide enough fulfillment of those moral duties; therefore, they must be subsidized. The most obvious example of this principle applied to subsidies is the category known as welfare spending. Whether the subsidies in question are farm subsidies (to help those poor, struggling small farmers), corporate
subsidies (to make sure companies don’t go under and fire all those poor people who work for them), or the myriads of programs to give free food, shelter, health care, and other things to the poor, the justification for welfare spending is always the fulfillment of the moral obligation to help those less fortunate than oneself. Now, of course, it is almost impossible to argue that we should not help the poor; however, we can ask if these sorts of government programs really achieve that end.

First, we will deal with the question of farm subsidies. Do farm subsidies, in fact, help poor, struggling farmers? A cursory look at the statistics gives us our answer. In fact, “the largest 10 percent of recipients have received 72 percent of all subsidy payments in recent years. Numerous large corporations and even some wealthy celebrities receive farm subsidies because they are the owners of farmland. It is landowners, not tenant farmers or farm workers, who benefit from subsidies.” (Edwards 2007) The fact of the matter is, the days of the small family farm are gone forever, and that is a good thing, because a large agribusiness corporation can pay for the most modern machinery and the best seeds and fertilizer, and can pay scientists to find the exact way to raise crops that maximizes output. Thus, economies of scale come into play, shifting production from labor-intensive to capital-intensive methods, increasing the productivity of the land and labor, and making society better off. However, this means that farm subsidies now have very little to do with helping the poor, and everything to do with appeasing the powerful farm lobby. Moreover, these subsidies have other effects than just robbing the taxpayers to pay the rich. They also distort the market, causing overproduction of crops, overuse of land, damage to the environment through overuse of fertilizers and pesticides, and damaging trade relations by lowering the prices of domestic
crops, making imported crops less competitive. All this costs the taxpayers about $30 billion every year. So, we can easily see that farm subsidies don’t fulfill any kind of moral imperative, but, to the contrary, are in direct violation of many moral laws, because they encourage political corruption and environmental irresponsibility, and they take money away from people who need it and give it to people who do not need it.

The next type of subsidies designed to fulfill a moral obligation are corporate subsidies; money given to businesses by the government (in one form or another). Now, there are many different types of corporate subsidies, and many different types of arguments to justify them, but, in general, the justification for corporate subsidies is that they create jobs; thus, by implication, fulfilling the moral obligation to help the poor by making sure that they can work for a living. Obviously, these subsidies can create jobs in the short run, because they enable companies to increase production beyond what the market would enable. However, the problem is that the same principle that was cited above as applying to art subsidies also applies to corporate subsidies: giving out money for being the best at playing politics instead of being the best at serving consumers leaves the consumers with more politics and less product. In other words, “industry begins to view Congress, rather than consumers, as their real customers.” (Moore 1999) So, corporate subsidies promote inefficiency in the market and corruption in the political process. Moreover, the more subsidies are given to a company, the more the company becomes dependent upon them for its survival, because, since subsidization encourages inferior products, the more a company is subsidized, the more resources it spends on developing political skills instead of superior products, so the more it falls behind unsubsidized companies who spend all of their resources on developing superior
products, and the more uncompetitive it would be if the subsidies were to be cut off. Finally, these subsidies, although primarily justified by the need to create jobs, don’t necessarily even perform that function. For example, from 1990 to 1994 the U.S. Department of Commerce provided more than $250 million to eight different firms, who proceeded over those five years to reduce their total U.S. workforces by 329,000. These firms took the money that was given to them and spent it on hiring cheaper foreign labor, which may have been the economically efficient thing to do, but was certainly not the way the subsidy was intended to be spent. So, we see that corporate subsidies, as well as farm subsidies, also encourage political corruption, economic distortion, and inferior products, while not even really accomplishing what they are supposed to do in the first place.

Finally, we will examine the most common type of welfare, the subsidies spent on food, housing, and other necessaries for the poor. Now, this is an immense and complex topic, but we will just take a brief overview of the ramifications of this type of welfare spending. The justification for welfare subsidies, of course, is to fulfill the moral obligation to help the poor by providing the necessities of life for them. This, of course, is a laudable goal. However, we must remember that the government is not God; it cannot create these necessaries ex nihilo. It must get the money by levying taxes on citizens with higher incomes. Now, the theoretical justification for this is that everyone has the moral obligation to take care of those less fortunate, so welfare programs just take that responsibility out of the hands of the individual, who may choose not to perform that duty, so it can be fulfilled by the communal will of the people, which is made manifest in the state. This theory has many horrible flaws, but there are two in particular that show
up in practice. First, we must recognize that the state is not a pure “manifestation of the will of the people.” That is a meaningless ideal. The state is the government, and the government is merely a group of people that exercises control over a society by claiming the exclusive right to exercise violent coercion. This is true whether such status is acquired by mere force, transfer from father to son, or popular election. Therefore, Rothbard’s principle applies to welfare payments as well as all other subsidies: they reward political skills (the ability to influence people in power) instead of economic skills. Because of this, we see that welfare recipients become very good at filling out forms and saying the right things to social workers, but have trouble holding down jobs because they have “horrible personal management skills.” (Wolf 2006) In the most extreme cases, some people actually become professional welfare cheats, never having jobs at all, but living out their lives as parasites on the taxpayers. (For an example, see Sage 2006.)

The second problem with the justification for welfare derives from what its advocates may consider its greatest strength: the fact that it is a guarantee of support to the poor, as opposed to a gift that may or may not be given. The reason that this is a problem is that a gift that cannot be counted on cannot be entered into economic calculation, while a guaranteed subsidy can. So, when “men are automatically entitled to money from the State because of their poverty…the marginal disutility of income forgone from leisure diminishes, and idleness and poverty tend to increase further, which in turn increases the amount of subsidy that must be extracted from the taxpayers.” (Rothbard 2004 p. 943) In other words, if you know that you’ll be getting a welfare check, you have that much less of a reason to go out and get a job. Moreover, if you have a job and hate it, and your
friends are on welfare and can lie around doing what they want all day, you just might want to leave your job and go on the dole, even if you won’t get as much money. What this basically turns out to be is an endorsement of this basic principle: if you subsidize something, you get more of it. If you subsidize wheat, you end up overproducing wheat. If you subsidize art, you end up with museums full of garbage no one is interested in. If you subsidize poverty, you get more poverty.

So, we see that subsidies introduced to create positive externalities tend, in practice, to produce these externalities incompletely or not at all, while simultaneously fostering production of shoddy goods, corruption in the political process, and generally distorting the market, causing massive losses of efficiency. This is caused by the operation of Rothbard’s principle: distributing rewards through forcible redistribution instead of production in the free market leads to decreasing productivity and increasing coercion. Therefore, subsidies are not a worthwhile way to spend our money. Now, this begs the question: if the government cannot ensure such important things as the continuation of the arts and humanities and the survival of the poor, then how can they be preserved? The only answer that economics provides is that people will use their resources to get what they want. If people want to take care of the poor and preserve the arts, and by ‘want’, I mean consider important enough to spend time and money on, then these objectives will be achieved. If not, then they will not be achieved. The one thing we must not do is allow ourselves to be seduced into believing that we can just effortlessly cast our vote for the right politician, and the government will take care of these things for us. We must affirm our responsibility as individuals to live up to our own moral
obligations, and not allow our own laziness to beguile us into sacrificing our freedom in order to avoid our responsibilities.
References


http://www.cato.org/downsizing/agriculture/agriculture_subsidies.html Cato Institute


Sage, Adam. 2006. “An artist of idleness tells how to work the system for 24 years.” *The London Times.* (Oct. 9)