



Crushing Small Business With Your Tax Dollars

by Al Cors Jr.

(NAPSA)—The first rural electric cooperative (REC) was created in the United States in 1914, a time when the vast majority of rural America was without electricity. By 1935 there were 30 such cooperatives in existence.

Their first Internal Revenue Service tax exemption occurred in 1923. The pattern continued—through the 1936 Rural Electrification Act—when RECs got the start-up capital to build distribution facilities. Today, RECs span the nation, and these government-supported bodies have been favored with taxpayer funding and a special tax status.

However, RECs now tend to be more concerned with political power than electric power, and are using their advantages to crush their small-business competition in areas of commerce far from their original mission.

National Taxpayers Union has long questioned the modern need for these Depression-era dinosaurs. The RECs' mission—the electrification of rural America—was accomplished many years ago, yet taxpayer subsidies continue unabated. In the 1990s, for example, RECs demanded and received \$1.5 billion in federal loan write-downs after they threatened bankruptcy.

America's RECs have gone far, far beyond providing electricity. A recent list of their ever-expanding activities include the sale, operation and/or distribution of everything from propane gas and heat pumps to home security systems, telephone service and digital cameras. This list is bound to expand, too, as RECs work daily to leverage their taxpayer-subsidized status in new private markets.

While free-market competition is always desirable, government-advantaged competitors skew the contest and, ultimately, drive all of the other private competitors off the field and out of business. It's happening now,



Despite being obsolete, rural electric cooperatives continue to wield a lot of clout.

in states like Georgia and Texas, and without changes in the law, it will happen everywhere. Recently, small businesses formed the Coalition for Fair Competition in Rural Markets to call attention to this threat.

And the stakes are high. A new study prepared for the Tax Foundation, by economist William P. Orzechowski, Ph.D., finds that rural co-ops use the substantial assets they have acquired through taxpayer subsidization to enter the propane market and drive out private companies. The study notes that the RECs' entry into the propane market wastes resources that could better be used to provide discounts to electric ratepayers. Finally, the study concludes that taxpayers are paying millions to subsidize co-ops with no good economic rationale.

If we are forced to continue down the path of funding RECs simply because of their political clout, at least we should make sure that they aren't allowed to grow even larger, crushing small businesses and taxpayers along the way.

Al Cors Jr. is Vice President for Government Affairs with the National Taxpayers Union, a 335,000-member citizen group founded in 1969 to work for lower taxes, less wasteful spending and accountable government. To learn more, visit www.ntu.org.