Policy Analysis

Cato Institute Policy Analysis No. 225: Ending Corporate Welfare as We Know It

May 12, 1995

Stephen Moore, Dean Stansel

Stephen Moore is director of fiscal policy studies at the Cato Institute. Dean Stansel is a fiscal policy analyst at Cato.

Executive Summary

In a speech last fall, Secretary of Labor Robert Reich identified federal programs that subsidize private industry -- which he called "corporate welfare" -- as a major contributor to the federal budget crisis. Reich challenged the Cato Institute to come up with a list of "business subsidies that don't make sense." We have enthusiastically accepted that challenge.

For years, the U.S. government has been in the business of providing special benefits to individual industries and companies through tax breaks, trade policies, and spending programs. There are several problems with this approach. The federal government has a poor record of picking industrial winners and losers, so the economic benefits that these programs are purported to create inevitably fail to materialize. Furthermore, corporate welfare programs create an uneven playing field; foster an incestuous relationship between business and government; are anti-consumer, anti-capitalist, and unconstitutional; and create a huge drain on the federal budget. For instance, this study finds that

- the federal budget contains more than 125 programs that subsidize private businesses, and
- in fiscal year 1995, more than $85 billion of the taxpayers' money will be spent on these programs.

The most efficient way to promote economic growth in America is to reduce the overall cost and regulatory burden of government. Ending corporate welfare as we know it would be a significant first step toward that goal of reducing the cost of government.

Introduction

> I invite the great think tanks of this city -- the Heritage Foundation and the Cato Institute, to pick two at random -- to add to the list their own examples of business subsidies that don't make sense.[1]
>
> --Secretary of Labor Robert Reich, November 22, 1994

Secretary Reich was right on target late last year when he identified "federal aid to dependent corporations" as a major contributor to the federal budget crisis. He was also right to challenge congressional Republicans and Washington think tanks to propose termination of federal activities that fall into the category of "corporate welfare." All welfare in America should be "ended as we know it" -- not just programs intended to benefit low-income people.

In this study we enthusiastically accept Secretary Reich's challenge to construct a list of unwarranted business subsidies. (We would point out that the Cato Institute was identifying and criticizing corporate welfare long before Secretary Reich's challenge.)[2] The list of corporate subsidy programs is longer and the dollar expenditures are far greater than most members of Congress and the administration, probably including Secretary Reich himself, suspect. This study finds that corporate pork is pervasive.

- Congress funds more than 125 programs that subsidize private businesses.

- Business subsidy programs cost federal taxpayers more than $85 billion annually and the dollar amount has been growing substantially in recent years.

- Every major cabinet department, including the Defense Department, has become a conduit for government funding of private industry. Within some cabinet agencies, such as the Department of Agriculture and the Department of Commerce, almost every spending program underwrites private businesses.

The following list includes some of the more egregious taxpayer subsidies to industries and firms.

- Through Sematech, a consortium of very large U.S. computer microchip producers, the Pentagon provides nearly $100 million a year of support to the industry. But of the more than 200 chipmakers in the United States, only the 14 largest, including Intel and National Semiconductor, receive federal support from Sematech.[3] Originally designed to help U.S. firms compete against foreign competition, Sematech now subsidizes the largest producers to help fend off smaller domestic competition.[4]

- An estimated 40 percent of the $1.4 billion sugar price support program benefits the largest 1 percent of sugar farms. The 33 largest sugar cane plantations each receive more than $1 million.[5]

- Through the Rural Electrification Administration and the federal power marketing administrations, the federal government provides some $2 billion in subsidies each year to large and profitable electric utility cooperatives, such as ALLTEL, which had sales of $2.3 billion last year.[6] Federally subsidized electricity holds down the costs of running ski resorts in Aspen, Colorado, five-star hotels in Hilton Head, South Carolina, and gambling casinos in Las Vegas, Nevada.[7]

- Last year the Forest Service spent $140 million building roads in national forests, thus subsidizing the removal of timber from federal lands by multi-million-dollar timber companies. Over the past 20 years the Forest Service has built 340,000 miles of roads -- more than eight times the length of the interstate highway system -- primarily for the benefit of logging companies.[8]

- The Department of Agriculture Market Promotion Program spends $110 million per year underwriting the cost of advertising American products abroad. In 1991 American taxpayers spent $2.9 million advertising Pillsbury muffins and pies, $10 million promoting Sunkist oranges, $465,000 advertising McDonald's Chicken McNuggets, $1.2 million boosting the international sales of American Legend mink coats, and $2.5 million extolling the virtues of Dole pineapples, nuts, and prunes.[9]

- Last year a House of Representatives investigative team discovered that federal environmental cleanup and defense contractors had been milking federal taxpayers for millions of dollars in entertainment, recreation, and party expenses.[10] Martin Marietta Corporation charged the Pentagon $263,000 for a Smokey Robinson concert, $20,000 for the purchase of golf balls, and $7,500 for a 1993 office Christmas party. Ecology and Environment, Inc., of Lancaster, New York, spent $243,000 of funds designated for environmental cleanup on "employee morale" and $37,000 on tennis lessons, bike races, golf tournaments, and other entertainment.[11] Such activities give new meaning to the term "corporate welfare."

Congress can no longer afford to ignore the growing scourge of corporate welfare. Any serious attempt to balance the budget will require a strategy for getting businesses off the $85 billion annual dole.

The Clinton Record On Business Subsidies

Unfortunately, notwithstanding Secretary Reich's rhetoric, the Clinton administration, like the Bush administration before it, has generally been a tireless advocate of corporate welfare -- indeed, on many occasions the White House has lobbied successfully for major expansions of business subsidies.[12] For example, in this year's budget the Clinton administration has requested the following:[13]

- $490 million for the Advanced Technology Program, the Clinton administration's high-tech version of the Small Business Administration. Last year the administration provided grant funds to such industry giants as General Electric, United Airlines, Xerox, Dupont, and Caterpillar.[14] U.S. General Accounting Office audits have found many ATP grantees whose overhead costs exceed actual research expenses.[15]

- $500 million for the Technology Reinvestment Project, a newly created military defense conversion program that subsidizes the development of civilian technologies. In 1994 award recipients included such Fortune 500 companies as Texas Instruments, Inc. ($13 million), 3M Co. ($6 million), Chrysler Corporation ($6 million), Hewlett Packard ($10 million), Boeing Co. ($7 million), and Rockwell International Corp. ($7 million).[16] These multi-million-dollar techno-pork awards are announced annually by the White House.[17]

- $333 million for the New Generation of Vehicles program, or the "Clean Car Initiative," which the White House says will "ensure the global competitiveness of the U.S. automobile industry"[18] -- that is, GM, Ford, and Chrysler. In 1994 Detroit's Big Three had a record $13.9 billion in profits.[19]

- $9.4 billion in Small Business Administration loan guarantees -- an increase of nearly 50 percent since 1993.

Much of the Clinton administration's interest in corporate grants and subsidies is in promoting what it refers to as "strategically important" high-technology products and research efforts. One of the most vocal proponents of such new techno-pork is Arati Prabhakar, director of the Department of Commerce's $1 billion National Institute of Standards and Technology. The purpose of government support of private-sector commercial activities, says Prabhakar, a Clinton appointee, is to "get government and industry to work together to do the jobs that can't be done separately."[20] Prabhakar favors federally funded "joint ventures to help develop the high-risk, high-payoff technologies that can enable significant commercial progress."[21]

The Problem with Corporate Welfare

The Clinton administration and other proponents of federal subsidies to private industry often maintain that government support of American business is in the national interest. A multitude of economic, national security, and social arguments are voiced to justify corporate aid. Government support of industry is said to protect industries from failure to preserve high-paying American jobs; subsidize research activities that private industries would not finance themselves; counteract the business subsidies of foreign governments to ensure a "level playing field"; boost high-technology industries whose profitability is vital to American economic success in the 21st century; maintain the viability of "strategic industries" that are essential to American national security; finance ventures that would otherwise be considered too risky for private capital markets; and assist socially disadvantaged groups, such as minorities and women, to establish new businesses.

On the surface, that kind of industrial policy may seem to promote America's economic interest. But there are at least eight reasons such policies are misguided and dangerous.

1. The federal government has a disappointing record of picking industrial winners and losers. The function of private capital markets is to direct billions of dollars of capital to industries and firms that offer the highest potential rate of return. The capital markets, in effect, are in the business of selecting corporate winners and losers. The underlying premise of federal business subsidies is that the government can direct the limited pool of capital funds more effectively than can venture capitalists and private money managers. But decades of experience prove that government agencies have a much less successful track record than do private money managers of correctly selecting winners. The average delinquency rate is almost three times higher for government loan programs (8 percent) than for commercial lenders (3 percent).[22] The Small Business Administration delinquency rates reached over 20 percent in the early and mid-1980s; the Farmers Home Administration delinquency rate has approached 50 percent.[23]

3. Corporate welfare is a huge drain on the federal treasury for little economic benefit. Corporate welfare is supposed to offer a positive long-term economic return for taxpayers. But the evidence shows that government "investments" have a low or negative rate of return. In the late 1960s the federal government spent nearly $1 billion on the Supersonic Transport, which experts in Washington expected would revolutionize air travel. Instead the project went bankrupt and never flew a single passenger. In the late 1970s the federal government spent more than $2 billion of taxpayer money on the Synthetic Fuels Corporation -- a public-private project that Department of Energy officials thought would provide new sources of energy for America in the 1980s. The SFC was closed down in the 1980s, having never produced a single kilowatt of electricity.

5. Corporate welfare creates an uneven playing field. Business subsidies, which are often said to be justified because they correct distortions in the marketplace, create huge market distortions of their own. The major effect of corporate subsidies is to divert credit and capital to politically well-connected firms at the expense of their politically less influential competitors. Those subsidies are thus inherently unfair. Sematech, for example, was reportedly launched to promote the U.S. microchip industry over rivals in Japan and Germany. In practice, Sematech has become a cartel of the large U.S. chip producers -- such as Intel -- that unfairly handicaps the hundreds of smaller U.S. producers.[24] Farm subsidies create another arbitrary distortion. Agricultural price supports are alleged to be critical to the survival of American farmers. The truth is that of the 400 classified farm commodities, about two dozen receive more than 90 percent of the assistance funds.[25] Over 80 percent of the subsidies enrich farmers with a net worth of more than half a million dollars.[26]

7. Corporate welfare fosters an incestuous relationship between business and government. Government and politics are inseparable. Much of what passes today as benign industrial policy is little more than a political payoff to favored industries or businesses. Taxpayer dollars that are used to subsidize private firms are routinely returned to Washington in the form of political contributions and lobbying activities to secure even more tax dollars. For example, the outdated Rural Electrification Administration survives primarily because of the lobbying efforts of the National Rural Electrical Cooperative Association in America. With a $78 million budget, that association is one of the most influential and heavily financed lobbying groups in Washington.[27] During the 1992 presidential campaign Vice President Dan Quayle traveled to Michigan to announce a $250 million plan to upgrade the M-1 tank -- which happens to be built by General Dynamics in Sterling Heights, Michigan.[28] Before the campaign the Bush administration had argued convincingly that in the post-Cold War era the more expensive tank was unnecessary. Many of the top recipients of technology research grants awarded by the Clinton administration were also substantial contributors to the Clinton campaign or the Democratic National Committee. For example, Table 1 lists eight Fortune 500 firms that were multi-million-dollar award winners of the Advanced Technology Program or the Technology Reinvestment Project in 1994 that were also large Democratic campaign contributors, according to Federal Election Commission (FEC) data compiled by Common

Cause. At the very least, these golden handshake programs create an impression that government is for sale.

9. Corporate welfare is anti-consumer. One of the main effects of many corporate subsidy programs is to raise costs to consumers. Trade restrictions, often sought by politically powerful industries, are estimated to cost consumers $80 billion a year.[29] The sugar program is estimated to cost consumers several billion dollars a year, according to a U.S. Department of Commerce study.[30] The Commerce study concluded, "Because sugar is an ingredient in many food items, the effect of the sugar program is similar to a regressive sales tax, which hits lower-income families harder than upper-income families."[31]

11. The most efficient way to promote business in America is to reduce the overall cost and regulatory burden of government. Corporate welfare is predicated on the misguided notion that the best way to enhance business profitability in America is to do so one firm at a time. But a much more effective way to enhance the competitiveness and productivity of American industry is to create a level playing field, which minimizes government interference in the marketplace and substantially reduces tax rates and regulatory burdens. For example, all the federal government's efforts to promote the big three U.S. automobile companies are insignificant compared with the regulatory burden on that industry, which now adds an estimated $3,000 to the cost of a new car.[32] Eliminating just half the business subsidies in the federal budget would generate enough savings to pay for the entire elimination of the capital gains tax. Clearly a zero capital gains tax would generate far more jobs and business start-ups than the scores of targeted business handouts in the federal budget.[33]

Table 1
Cash In, Cash Out

	Campaign Contributions		1994 Grant Awards ($ millions)a	
Company	1992	1994	TRP	ATP
AT&T	$30,000	$ 60,000	18.1	16.1
Boeing, Inc.		127,000	48.9	2.0
Chevron Corp.	61,000	159,000		8.1
General Electric Co.	46,000	107,000	14.8	
McDonnell Douglas Corp.	43,000	59,000	8.1	
Shell Petroleum, Inc.	65,000			12.0
Texaco, Inc.	22,000			8.1
United Technology Corp.	41,000		12.3	

Sources: Advanced Technology Program and Technology Reinvestment Project lists of 1994 award recipients; Common Cause reports, based on Federal Election Commission data. (a)Grant award figures are total amount per project. Most projects included more than one firm, and in some cases the funds were distributed to subsidiaries of the firm listed.

13. Corporate welfare is anti-capitalist. Corporate welfare converts the American businessman from a capitalist into a lobbyist. Corporate welfare, notes Wall Street financier Theodore J. Forstmann, has led to the creation of the "statist businessman in America."[34] The statist businessman is "a conservator, not a creator; a caretaker, not a risk taker; an argument against capitalism even though he is not a capitalist at all."[35] For example, the Fanjul family, owner of several large sugar farms in the Florida Everglades, captures an estimated $60 million a year in

artificial profits thanks to price supports and import quotas. The Fanjul family is a fierce defender of the sugar program and in 1992 contributed $350,000 to political campaigns.[36] All of that has a corrosive effect on the American free-enterprise system.

15. Corporate welfare is unconstitutional. The most critical reason that government should end corporate subsidy programs is that they lie outside Congress's limited spending authority under the Constitution. Nowhere in the Constitution is Congress granted the authority to spend funds to subsidize the computer industry, or to enter into joint ventures with automobile companies, or to guarantee loans to favored business owners.[37]

The Many Forms of Corporate Welfare

Government provides special benefits to individual industries and companies through a vast array of policy levers. The three major business benefits come in the forms of special tax breaks, trade policies, and spending programs.

Tax Breaks

When Secretary Reich protested against "aid to dependent corporations" his criticism was directed toward "special tax benefits for particular industries."[38] The Democratic Leadership Council's Progressive Policy Institute has specified some 30 such "tax subsidies" that led to a loss of $134 billion in federal revenues over five years.[39]

One of the most inefficient tax subsidies is that for the production of ethanol -- a corn-based gasoline substitute. Ethanol enjoys two tax breaks: a tax credit for companies that blend ethanol and an exemption from federal excise taxes.[40] The tax breaks are allegedly justified on the grounds that they reduce pollution and U.S. dependence on foreign oil. But a U.S. Department of Agriculture study finds that the $500 million subsidy for ethanol "represents an inefficient use of our nation's resources."[41] It concludes, "When all economic costs and benefits are tallied, an ethanol subsidy program is not cost effective."[42] As for the supposed energy conservation and environmental benefits, a study by agricultural economist David Pimental at Cornell University discovered: "About 72 percent more energy is used to produce a gallon of ethanol than the energy in a gallon of ethanol."[43]

Politics, not economics, is the principal motivation behind the ethanol subsidies. Archer Daniels Midland (ADM), a $10 billion agribusiness based in Decatur, Illinois, produces 70 percent of the ethanol used in the United States.[44] An estimated 25 percent of its sales are of ethanol and corn sweetener (another highly federally subsidized farm product).[45] ADM and its CEO Dwayne Andreas have been among the nation's most generous campaign contributors, with more than $150,000 in lifetime contributions to Senate Majority Leader Bob Dole alone.[46]

Most targeted tax breaks create similar economic inefficiencies. Nonetheless, we reject the notion that allowing a company to keep its earnings and pay less in taxes is somehow a "subsidy." Furthermore, with the federal government already collecting $1.3 trillion in revenues each year, we oppose any policy that would give Congress more tax dollars to spend. Research suggests that policies that would bring additional dollars into the federal treasury would only invite higher congressional spending, not lower budget deficits.[47]

Our recommendation is that Congress abolish all tax deductions, including all the special tax breaks for industries identified by the Progressive Policy Institute, in exchange for lower overall corporate and personal tax rates on business and personal taxpayers. That could be accomplished through Rep. Dick Armey's (R-Tex.) flat tax proposal or Rep. Bill Archer's (R-Tex.) retail sales tax concept.[48] Any such tax policy reform should be made on a revenue-neutral basis, or as a net tax cut.

Trade Barriers

"Most of the statutes, or acts, edicts, and placards of parliaments, and states for regulating and directing of trade," wrote Benjamin Franklin, "have been either political blunders or obtained by artful men for private advantage under pretence of public good." In 1991 there were more than 8,000 product tariffs imposed by Uncle Sam, all obtained for private advantage under pretense of public good.[49]

By erecting trade barriers, the government rewards one industry at the direct expense of another. For example, in 1991 prohibitive duties were placed on low-cost Japanese computer parts. The motivation was to save jobs in U.S. factories that make computer circuit boards. But the decision to keep out foreign parts inflated by almost $1,000 the cost per personal computer manufactured by U.S. companies, such as IBM, Apple, and Compaq.[50] That gave a huge advantage to Japanese computer companies; it significantly reduced sales of the U.S. computer firms; and worst of all, thousands of American jobs were lost.

Steel import quotas are equally economically injurious to American manufacturers. Trade specialists believe that the inflated steel prices paid by U.S. firms have contributed to the competitive decline of several American industries, including the auto industry. The cost to the American economy of steel quotas is estimated at $7 billion per year.[51]

No one knows precisely the total cost to American consumers of barriers to free trade. But several authoritative sources place the figure at $80 billion per year.[52] There is virtually no specific U.S. trade restriction the economywide costs of which do not exceed the industry-specific benefits. Therefore, Congress should immediately lift all barriers to free trade.

Federal Outlays for Business Subsidies

The remainder of this study is devoted to the most pervasive form of corporate welfare: direct federal expenditures. We find that there are now at least 125 separate programs providing subsidies to particular industries and firms and that the price tag exceeds $85 billion per year. We recommend the immediate abolition of all such programs. (See Appendix for complete listing.)

Conclusion

The federal welfare state for low-income families now costs taxpayers between $250 billion and $300 billion a year. But through an amalgamation of trade policies, selective tax breaks, and spending programs, the federal corporate welfare state is nearing that size. Both of those failed welfare empires should be toppled.

Because they intermingle government dollars with corporate political clout, business subsidies have a corrupting influence on both America's system of democratic government and our system of entrepreneurial capitalism. Despite the conventional orthodoxy in Washington that the United States needs an even closer alliance between business and politics, the truth is that both government and the marketplace would work better if they kept a healthy distance from each other.

It is ironic that at a time when the federal government is in litigation with Microsoft, perhaps America's most innovative and profitable high-technology corporation in decades, for successfully dominating the software industry, Congress is spending hundreds of millions of dollars trying to prop up the firm's less efficient computer industry rivals. We now have a situation where federal regulatory policies are increasingly geared toward punishing success, while federal corporate welfare policies increasingly reward failure. That is not the way to preserve America's industrial might.

Notes

[1] Robert Reich, "The Revolt of the Anxious Class," speech before the Democratic Leadership Council, November 22, 1994.

[2] See, for example, James Bovard, "The Myth of Fair Trade," Cato Institute Policy Analysis no. 164, November 1, 1991; William Niskanen and Stephen Moore, "How to Balance the Budget by Reducing Spending," Cato Institute Policy Analysis no. 194, April 1993; Jeffrey Gerlach, "Politics and the National Defense: The 1993 Defense Bill," Cato

Institute Foreign Policy Briefing Paper no. 22, January 20, 1993, p. 5; William A. Niskanen and Stephen Moore, "Balance the Budget by Reducing Spending," in Market Liberalism: A Paradigm for the 21st Century, ed. David Boaz and Edward H. Crane (Washington: Cato Institute, 1993); Clifton B. Luttrell, The High Cost of Farm Welfare (Washington: Cato Institute, 1989); Paul H. Weaver, The Suicidal Corporation (New York: Simon & Schuster/Cato Institute, 1989); Richard B. McKenzie, Competing Visions: The Political Conflict over America's Economic Future (Washington: Cato Institute, 1985); James Bovard, "Farm Bill Follies of 1990," Cato Institute Policy Analysis no. 135, July 12, 1990; James F. Thompson and W. Frank Edwards, "Dairy Policy and the Public Interest: The Economic Legacies," Cato Institute Policy Analysis no. 57, July 30, 1985; Clifton Luttrell, "Government Crop Programs: High Cost and Few Gains," Cato Institute Policy Analysis no. 56, July 9, 1985; Daniel Klein, "Taking America for a Ride: The Politics of Motorcycle Tariffs," Cato Institute Policy Analysis no. 32, January 12, 1984; Michael McMenamin, "Tedious Fraud: Reagan's Farm Policy and the Politics of Agricultural Marketing Orders," Cato Institute Policy Analysis no. 30, December 6, 1983; Michael McMenamin, "Dairy Price Supports: Still Milking the Public," Cato Institute Policy Analysis no. 14, August 19, 1982; David Boaz, "The Reagan Budget: The Deficit That Didn't Have to Be," Cato Institute Policy Analysis no. 13, August 10, 1982; and Kent Jeffreys, "Super Boondoggle: Time to Pull the Plug on the Superconducting Super Collider," Cato Institute Briefing Paper no. 16, May 26, 1992.

[3] Brink Lindsey, "Sematech: The Wrong Solution," Journal of Commerce, January 17, 1992, op-ed page.

[4] Brink Lindsey, "DRAM Scam," Reason, February 1992.

[5] General Accounting Office, "Sugar Program: Changing Domestic and International Conditions Require Program Chang es" (GAO/RCED-93-84), April 1993, Table 3.3, p. 33.

[6] Energy Information Administration, "Federal Energy Subsidies," U.S. Department of Energy, November 1992; Standard & Poor's Register of Corporations and Executives, vol. 1, 1995 (New York: Standard & Poor's, 1995), p. 89.

[7] Scott Hodge, "A Prosperity Plan for America," The Heritage Foundation, 1993, p. 76.

[8] Wayne Gable, Wasting America's Money: Your Tax Dollars at Work (Washington: Citizens for a Sound Economy Founda tion, 1990), p. 101; and Richard Stroup and John Goodman, "Progressive Environmentalism," National Center for Policy Analysis, Dallas, Tex., 1991, pp. 37-38.

[9] Betsy Wiesendanger, "Money Well Spent?" Sales & Market ing Management, July 1992, pp. 40-46; and Steven W. Colford, "Senate probes ad subsidies to marketers," Advertising Age, March 23, 1992, pp. 1, 45.

[10] "Taxpayers Get Stuck with Tab for 'Morale' of Contractors," Washington Times, October 18, 1994, p. A6.

[11] Ibid.

[12] See Budget of the United States Government, Fiscal Year 1996 (Washington: Government Printing Office).

[13] Note that the numbers listed reflect the amounts requested by President Clinton for FY 1996. In contrast, the numbers in the appendix reflect FY 1995 appropriations.

[14] U.S. Department of Commerce, National Institute of Standards and Technology, Advanced Technology Program, list of 1994 award recipients.

[15] Cited in Ted Bunker, "Will GOP End Technology Pork?" Investor's Business Daily, December 20, 1994, pp. A-1, 2.

[16] Office of Assistant Secretary of Defense (Public Affairs), News Release No. 603-94 and attached list, "Technology Reinvestment Project Announces FY94 Selections," October 25, 1994. The monetary figures were the amount awarded for each grant. The firms listed were the lead recipients, but some of the award funds may have been distributed to other companies.

[17] Bunker, p. A-2.

[18] Budget of the U.S. Government, Fiscal Year 1996, p. 98.

[19] "Can Detroit Repeat Its Record Year?" U.S. News and World Report, February 13, 1995, p. 3.

[20] Quoted in Michael Schrage, "A Technocrat Faces the GOP Assault on Government's Role in Innovation," Washington Post, November 18, 1994, p. B-3.

[21] Ibid.

[22] General Accounting Office, "Debt Collection: Information on the Amount of Debts Owed the Federal Government," Decem ber 1985.

[23] David F. Linowes, Privatization: Toward More Effective Government, Report of the President's Commission on Privatization (Urbana, Ill.: University of Illinois Press, 1988), pp. 41-42.

[24] Lindsey, "DRAM Scam."

[25] Stephen Moore, "Slashing the Deficit," Heritage Foundation, Washington, 1990.

[26] For a critique of the federal farm subsidies, see James Bovard, The Farm Fiasco (San Francisco: Institute for Contemporary Studies, 1989).

[27] Associations Yellow Book 3, no. 2 (Winter 1994): 692.

[28] Gerlach, p. 5.

[29] James Bovard, The Fair Trade Fraud (New York: St. Martin's Press, 1991), p. 5.

[30] U.S. Department of Commerce, United States Sugar Policy--An Analysis, 1988, p. v.

[31] Ibid., p. 10.

[32] Stephen Moore, Government: America's #1 Growth Industry (Lewisville, Tex.: Institute for Policy Innovation, 1995), p. 92.

[33] For an estimate of the growth impact of a capital gains tax cut, see Stephen Moore, "The Tax Treatment of Capital Gains," National Chamber Foundation, Washington, 1990.

[34] Theodore J. Forstmann, "The Paradox of the Statist Businessman," Cato Policy Report 17, no. 2 (March-April 1995).

[35] Ibid.

[36] Rich Lowry, "The Undeserving Rich," National Review, December 31, 1994, pp. 21-22.

[37] For a discussion of the constitutional limitations on federal spending, see: Roger Pilon, "On the Folly and Illegitimacy of Industrial Policy," Stanford Law and Policy Review 5, no. 1 (Fall 1993): 103-18.

[38] Reich, "The Revolt of the Anxious Class."

[39] Robert J. Shapiro, "Cut and Invest: A Budget Strategy for the New Economy," Progressive Policy Institute Policy Report no. 23, March 1995.

[40] Salvatore Lazzari, "Alcohol Fuels Tax Incentives and EPA's Renewable Oxygenate Requirement," CRS Report

for Congress, October 7, 1994.

[41] U.S. Department of Agriculture, "Fuel Ethanol and Agriculture: An Economic Assessment," August 1986.

[42] Ibid., p. 20.

[43] David Pimental, "Ethanol Fuels: Energy Security, Economics, and the Environment," Journal of Agricultural and Environmental Ethics 4, no. 1 (1991): 1-13.

[44] Peter H. Stone, "The Big Harvest," National Journal, July 30, 1994, p. 1790.

[45] John A. Barnes, "Anatomy of a Rip-Off," New Republic, November 2, 1987, pp. 20-21.

[46] Ibid, p. 20.

[47] Richard Vedder, Lowell Gallaway, and Christopher Frenze, "The Impact of Taxes on the Deficit," Joint Economic Committee of Congress, (102d) 1992.

[48] For a discussion of a form of the latter, see Laurence J. Kotlikoff, "The Economic Impact of Replacing Federal Income Taxes with a Sales Tax," Cato Institute Policy Analysis no. 193, April 15, 1993.

[49] Bovard, The Fair Trade Fraud, p. 7.

[50] James Bovard, "U.S. Trade Laws Harm U.S. Industries," Regulation 16, no. 4 (1993): 50.

[51] Bovard, The Fair Trade Fraud, p. 84.

[52] Ibid, p. 5.