CATO HANDBOOK FOR CONGRESS

POLICY RECOMMENDATIONS FOR THE 108TH CONGRESS

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33. Corporate Welfare

Congress should

- end programs that provide direct grants to businesses,
- end programs that provide marketing and other commercial services to businesses,
- end programs that provide subsidized loans and insurance to businesses,
- eliminate foreign trade barriers that try to protect U.S. industries from foreign competition at the expense of U.S. consumers,
- eliminate domestic regulatory barriers that favor particular companies with monopoly power against competitors, and
- create financial transparency with a detailed listing in the federal budget of companies that received direct business subsidies and the amounts received.

In fiscal year 2002, the federal government spent about $93 billion on programs that subsidize businesses. There have been numerous efforts to cut these wasteful and unfair uses of taxpayer money, but total corporate welfare spending keeps rising. A serious attempt was made after the Republicans took control of both houses of Congress in the 1990s to eliminate corporate welfare, but those efforts met with few successes.

The Bush administration has promised a renewed attack on corporate welfare. Indeed, Budget Director Mitch Daniels stated that it was ''not the federal government's role to subsidize, sometimes deeply subsidize, private interests.'' While taxpayers wait for reforms, the government continues to subsidize private interests *directly* through such programs as aid to farmers and subsidized loans for exporters. And private interests continue to receive billions of dollars of *indirect* subsidies through programs such as those for federal energy research. With the federal budget again in deficit by more than $100 billion, corporate welfare is the perfect place to start cutting excess spending.

What Is Corporate Welfare?

Corporate welfare consists of government programs that provide unique benefits or advantages to specific companies or industries. Corporate welfare includes programs that provide direct grants to businesses, programs that provide indirect commercial support to businesses, and programs that provide subsidized loans and insurance.

Many corporate welfare programs provide useful services to private industry, such as insurance, statistics, research, loans, and marketing support. Those are all functions that many industries in the private sector do for themselves. If the commercial activities of government are useful and efficient, then private markets should be able to support them without subsidies.

In addition to spending programs, corporate welfare includes barriers to trade that attempt to protect U.S. industries from foreign competition at the expense of U.S. consumers and U.S. companies that use foreign products. Corporate welfare also includes domestic legal barriers that favor particular companies with monopoly power over free-market competitors.

Corporate welfare sometimes supports companies that are already highly profitable. Such companies clearly do not need any extra help from taxpayers. In other situations, corporate welfare programs prop up businesses that are failing in the marketplace. Such companies should be allowed to fail because they weigh down the economy and reduce overall U.S. income levels.

Which Agencies Dish It Out and Who Receives It?

The federal budget supports a broad array of corporate welfare programs. The leading corporate welfare providers are the Departments of Agriculture, Health and Human Services, Transportation, and Energy (Table 33.1). Many smaller independent federal agencies, such as the Export-Import Bank, also dole out corporate welfare.

Corporate welfare is a multiagency problem, so any one congressional committee cannot reduce the corporate welfare budget across the board. Indeed, congressional committees try to maximize corporate welfare handouts within their jurisdictions. For example, the agriculture committees appeal to farm voters with farm pork. Leadership to cut corporate welfare in the broader public interest must come from the budget committees, the senior congressional leadership, and the president.

Table 33.1
Corporate Welfare Spending by Department
(budget authority, $ millions)

Department	FY02	Share (%)
Agriculture	$35,049	38
Health & Human Services	$9,156	10
Transportation	$10,702	12
Energy	$5,873	6
Housing & Urban Dev.	$7,802	8
Defense	$4,003	4
Interior	$1,967	2
Commerce	$1,967	2
All other agencies	$16,144	17
Total	$92,663	100

SOURCE: Cato estimates based on the *Budget of the U.S. Government, FY 2003*.

Many corporate welfare recipients are among the biggest companies in America, including the Big 3 automakers, Boeing, Archer Daniels Midland, and now-bankrupt Enron. Most of the massive handouts to agricultural producers go to large farming businesses. Once companies are successful in securing a stream of taxpayer goodies, they defend their stake year after year with the help of their state's congressional delegation. But with corporate governance reform currently in vogue, it would seem to be a good time for Congress to cut off this unjustified source of corporate profit.

A Sampler of Corporate Welfare Programs to Cut

The following are some corporate welfare programs that are long overdue for cutting. Spending totals given are budget authority for FY02.

Direct Subsidies

- Agriculture Department—Market Access Program ($90 million). This program gives taxpayer dollars to exporters of agricultural products to pay for their overseas advertising campaigns.
- Commerce Department—Advanced Technology Program ($187 million). This program gives research grants to high-tech companies. Handouts to successful firms make no sense because they could have relied on private venture capital instead. Handouts to unsuccessful firms with poor ideas also make no sense because taxpayers end up paying for economic waste.

- Foreign Military Financing ($3.7 billion). U.S. taxpayers fund weapons purchases by foreign governments through this program. That seems contrary to weapons nonproliferation policy, and the program runs the risk that weapons recipients may not be U.S. allies in the future.
- Amtrak ($621 million). The federal passenger rail company should be fully privatized to allow it to compete fairly with other modes of transportation.

Subsidized Loans and Insurance

- Export-Import Bank ($1.2 billion). This program uses taxpayer dollars to subsidize the financing of foreign purchases of U.S. goods. It makes loans to foreigners at below-market interest rates, guarantees the loans of private institutions, and provides export credit insurance.
- Overseas Private Investment Corporation ($188 million). OPIC provides direct loans, guaranteed loans, and risk insurance to U.S. firms that invest in developing countries. Enron, a top beneficiary of both OPIC and Ex-Im programs in the late 1990s, provides a glaring example of corporate welfare waste.
- Maritime Administration—guaranteed loan program ($250 million). Provides loan guarantees for purchases of ships from U.S. shipyards. The United States has vast and liquid financial markets making credit available to all businesses that have reasonable risks. It makes no sense to use taxpayer funds to duplicate functions of private financial markets.

Indirect Subsidies to Businesses

- Agriculture Department—research and marketing services ($2 billion). Agricultural research and marketing programs aim to improve product quality, find new uses for products, generate market data, and support promotions for a variety of agriculture products. In most industries, such commercial activities are carried out by private businesses.
- Energy Department—energy supply research ($670 million). This program aims to develop new energy technologies and improve existing ones. The energy industry itself and private research institutes should fund such work.
- The Small Business Administration ($1.6 billion). The SBA provides subsidized loans and loan guarantees to small businesses and has a poor record of selecting businesses to support since its loans have a very high delinquency rate.

What Is Wrong with Corporate Welfare?

As some of the above examples illustrate, there are many problems with corporate welfare programs. Here are seven:

1. Corporate welfare is a big drain on the taxpayer. In FY02, $93 billion of taxpayer money was spent on programs that subsidize businesses. By eliminating these programs, Congress could provide every household in the country with an $860 per year tax cut.

2. Corporate welfare creates an uneven playing field. By giving selected businesses and industries special advantages, corporate subsidies put businesses that are less politically connected at an unfair disadvantage.

3. Corporate welfare programs are anti-consumer. By helping particular businesses, the government often damages consumers. For example, the protectionist federal sugar program costs consumers several billion dollars per year in higher product prices.

4. The government does a poor job of picking winners. Federal loan programs, such as those operated by the SBA, have high delinquency rates, indicating that the difficult job of analyzing business risks should be left to the private sector. With regard to technology subsidies, the federal government has a long history of wasting money on failed ideas. It is the role of private entrepreneurs and investors to take technology risks through institutions such as ''angel'' financing, venture capital, and stock markets. Government should not use taxpayer money on risky schemes.

5. Corporate welfare fosters corruption. Corporate welfare generates an unhealthy—sometimes corrupt—relationship between business and the government. For example, a Maritime Administration program aided shipbuilders by guaranteeing a $1.1 billion loan to build cruise ships in Sen. Trent Lott's hometown. Before the ships were completed, the company went bankrupt and left taxpayers with a $200 million tab. Steering taxpayer funds into risky private schemes in important politicians' districts should be stopped.

6. Corporate welfare depletes private-sector strength. While ''market entrepreneurs'' work hard to create new businesses, corporate welfare helps create ''political entrepreneurs'' who spend their energies seeking government handouts. Corporate welfare draws talented people and firms into wasteful subsidy-seeking activities and away from more productive pursuits. Besides, companies receiving subsidies usually become weaker and less efficient, not stronger.

7. **Corporate welfare is unconstitutional.** Corporate subsidy programs lie outside Congress's limited spending authority under the U.S. Constitution. Nowhere in the Constitution is the government granted the authority to spend taxpayer dollars on boondoggles such as subsidizing Enron to build power plants in India.

Congress Needs to Work with the Administration to Achieve Cuts

The Bush administration has launched an effort to grade the effectiveness of federal activities and move funds away from poorly performing programs. As part of that effort, the FY03 budget proposed some modest corporate welfare cuts. Overall, it proposed reducing corporate welfare from $93 billion in FY02, to $86 billion in FY03, according to Cato estimates.

The administration has proposed reductions in the Manufacturing Extension Partnership and the Advanced Technology Program. The Corps of Engineers has also been slated for budget reductions. Unfortunately, Congress usually ignores such cut proposals unless the administration presses hard and starts to veto spending bills to gain leverage.

The administration did zero out the failed Partnership for a New Generation of Vehicles subsidy program for U.S. automakers in its FY03 budget. Despite $1.5 billion in subsidies over eight years, U.S. carmakers did not deliver a promised hybrid car to consumers. Meanwhile, unsubsidized Honda and Toyota did introduce successful models. Unfortunately, the administration replaced PNGV with a new carmaker subsidy called FreedomCar at $150 million per year.

There are many good corporate welfare targets for Congress to cut. In the wake of the Enron scandal, reformers should push for elimination of the Ex-Im Bank and OPIC. These federal entities loaned Enron more than $1 billion for far-flung schemes around the world from which taxpayers did not get their money back. Also, reformers should get on board with the administration and cut the Community Development Block Grant program, which was criticized in the FY03 budget for doling out pork projects to high-income communities.

Eliminating Corporate Welfare

A two-pronged attack should be made to overcome the political difficulty of ending corporate welfare. Because corporate welfare is doled out by dozens of federal agencies, it is difficult for taxpayers to find out which firms are receiving what amounts of money. A first reform step should be financial transparency. The administration should begin providing a detailed cross-agency listing of companies that received direct business subsidies and the amounts received in its annual budget documents.

In addition to full disclosure, a corporate welfare termination commission should be established, akin to the successful military base closing commissions of the 1990s. The commission would present a list of cuts to Congress, which would be required to vote on all the cuts together with no amendments allowed. As an added way for members to gain support for the measure, the full value of savings could go to immediate tax rebates for all taxpayers.

Suggested Readings

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