34. 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 trade barriers intended 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,
- create financial transparency with a detailed listing in the federal budget of companies that receive direct business subsidies and the amounts thereof, and
- establish a corporate welfare elimination commission modeled after the Base Realignment and Closure Commission.

By the end of fiscal 2004, the federal government had spent at least $90 billion on more than 65 programs that subsidize businesses. There have been numerous efforts to cut those wasteful and unfair programs, but total corporate welfare spending keeps rising. A somewhat serious attempt was made after the Republicans took control of both houses of Congress in the 1990s, but those efforts failed.

The Bush administration had promised a renewed attack on corporate welfare in its first year in office. Indeed, then–budget director Mitch Daniels stated that it was ''not the federal government's role to subsidize, sometimes deeply subsidize, private interests.'' By its second year in office, the Bush administration had basically abandoned any direct campaign against corporate welfare programs. 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 federal energy research and trade barriers. With the federal budget in deficit in 2005 by an estimated $348 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 private industry with useful services, such as insurance, statistics, research, loans, and marketing support. Those are all functions that the private sector does every day for itself without government help in many industries. If commercial activities are useful and efficient, then private markets should be able to support them free of 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 against 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 in most cabinet-level agencies. The leading corporate welfare providers are the Departments of Agriculture, Commerce, Energy, Housing and Urban Development, and Transportation. Many smaller independent fed-

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eral agencies, such as the Export-Import Bank, also dole out corporate welfare.

Many recipients of corporate welfare are among the biggest companies in America, including the Big Three 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.

The Dirty Dozen: 12 Most Odious Corporate Welfare Programs

1. Advanced Technology Program (Department of Commerce)
2. Economic Development Administration (Department of Commerce)
3. International Trade Administration (Department of Commerce)
4. Market Access Program (Department of Agriculture)
5. Foreign Military Financing (Department of Defense)
6. FreedomCAR (Department of Energy)
7. Maritime Administration's Guaranteed Loan Subsidies
8. Export-Import Bank
9. Agency for International Development
10. Small Business Administration
11. Energy Supply Research and Development
12. Agricultural Research Service

A Sampler of Corporate Welfare Programs to Cut

The following are some corporate welfare programs that are long overdue for elimination. Eliminating just these 12 programs would yield $94 billion in savings over five years. The spending total next to each program below is for FY2004—in the cases in which outlay figures were unobtainable, budget authority is listed.

Direct Subsidies

- Commerce Department—Advanced Technology Program ($195 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

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firms make no sense because they force taxpayers to subsidize economic waste.

- Commerce Department—Economic Development Administration ($417 million). The programs within the EDA give grants to state and local government, nonprofit corporations, and private businesses to, among other things, fund the construction of private industrial office parks. The EDA also funds the Trade Adjustment Assistance program, which doles out grants to firms and industries that lose business as a result of free trade.
- Commerce Department—International Trade Administration ($364 million). The ITA's role is to ''develop the export potential of U.S. firms'' by conducting export promotion programs and protecting inefficient industries by enforcing antidumping regulations. A handful of other corporate welfare programs survive under the umbrella of ITA.
- Agriculture Department—Market Access Program ($103 million). This program gives taxpayer dollars to exporters of agricultural products to pay for their overseas advertising campaigns.
- Department of Defense—Foreign Military Financing ($5.4 billion). Through this program, U.S. taxpayers fund weapons purchases by foreign governments from U.S. weapons makers. This program is estimated to be the largest single subsidy program for U.S. weapons exporters.
- Department of Energy—FreedomCAR ($246 million). This program, the brainchild of President Bush, replaces the Partnership for a New Generation of Vehicles, a longtime target of opponents of corporate welfare. This program supports research on lightweight automotive technology, electronic power controls, and hybrid engines. It even includes money to research a hydrogen-fueled engine. This is research that the big automakers could easily finance on their own.

Subsidized Loans and Insurance

- Maritime Administration—Guaranteed Loan Subsidies ($55 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.

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- Export-Import Bank ($1.5 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. (See Chapter 68 for more details.)

Indirect Subsidies to Businesses

- Agency for International Development ($4.6 billion). AID is the main U.S. foreign aid agency. It establishes investment funds with taxpayer money, which indirectly subsidizes American businesses. As the agency itself proudly admits: ''The principal beneficiary of America's foreign assistance programs has always been the United States. Close to 80 percent of the [U.S. AID] contracts and grants go directly to American firms.''
- The Small Business Administration ($4 billion). The SBA provides subsidized loans and loan guarantees to small businesses. Because government can't properly pick winners and losers in a complex economy, the program's track record is abysmal. Around 15 percent of SBA loans become delinquent in any given year, and taxpayers are left holding the bag. Small businesses should compete for capital just like any other business.
- Energy Department—Energy Supply Research ($714 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.
- Agriculture Department—Agricultural Research Service ($1.1 billion). This program aims to improve product quality and find new uses for a variety of agricultural products. In most industries, such commercial activities are financed by the businesses selling the product, not taxpayers.

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 FY03, around $90 billion of taxpayer money was spent on programs that subsidize businesses. By eliminating those programs, Congress could provide every household in the country with an $842 per year tax rebate.

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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**. It is the role of private entrepreneurs and investors to take technology risks in the venture capital and stock markets. Government by its nature cannot possibly collect, use effectively, or even fathom enough information to successfully direct the capital markets.
5. **Corporate welfare fosters an incestuous relationship between government and corporations.** Corporate welfare generates an unhealthy relationship between business and the government. In Washington today industry trade associations and lobbying firms continually pressure lawmakers to give out new business subsidies or to protect old ones. All of the corporate welfare money that Enron received over the years is a perfect example of that. If, on the other hand, the federal government got out of the business of handing out favors, that demand would diminish.
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 specific industries.

Eliminating Corporate Welfare

A two-pronged attack should be taken 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

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be financial transparency. The administration should begin providing a detailed cross-agency listing of companies and cash received for all direct business subsidies in its annual budget documents.

Beyond full disclosure, a corporate welfare elimination commission, akin to the successful military base closing commissions of the 1990s, should be established,. Ending corporate welfare will require altering the incentives of legislators. No one senator or representative will vote for a bill that lowers the budget for his or her favored program without a corresponding decrease in someone else's favored program. In other words, no one wants to unilaterally defund a favorite program since the money will just be reallocated elsewhere.

Also, member of Congress A knows that voting for a decrease in member B's favored program might result in future reprisals. That is the reason that tackling these programs one by one, or in a small group, during the appropriations process is not likely to yield results. An institutional problem of this sort requires an institutional solution.

General guidelines for a bill creating a corporate welfare elimination commission could be as follows:

- The commission would not be composed of sitting members of Congress. It would be chosen by bipartisan agreement between the president and the leadership of both houses of Congress.
- The commission would convene for the purpose of proposing a list of corporate welfare programs that should be eliminated.
- No corporate welfare spending program should be considered ''off the table.''
- The commission's list of recommended program terminations would be voted on by both houses of Congress, with no amendments, within 60 days of the commission's final report.

A commission structured along those lines would solve two main problems:

- The Special Interests Dilemma: Because the members of the commission would not be incumbent lawmakers, there would be few, if any, incentives for the members to think about reelection prospects or other political factors. Admittedly, there would still be special interest pressure on the commission. Instead of lobbying members of Congress, supporters of corporate welfare programs would lobby the commission. However, the political dynamic would be different enough that lobbying would be likely to be less, if at all, effective.

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- The Collective Choice Dilemma: Because every program would be terminated by an up-or-down vote on an unamendable bill, there would be no vote trading on the specifics of the bill as there is during the normal appropriations process. The commission would have the ability to cast a wider net and create a list of programs that would hit a larger number of special interest constituencies than any one member of, or group within, Congress would propose. To avoid other attendant political dynamics, the commission could present to Congress its list of program terminations in a nonelection year.

This idea has an ancestor in the Base Realignment and Closure Commission. The BRAC grew out of the understanding that even though the military base structure at the time made little sense on the whole, Congress could not bring itself to close specific bases. Although many members of Congress wanted to close military bases in the abstract, they were rarely willing to vote for a bill that would close a base in their district. As in the case of corporate welfare programs, Congress soon found itself unable, because of institutional and political biases, to downsize the defense budget at a time when doing so was widely and often cited by members of both parties as an important goal.

Another benefit for taxpayers of having a commission address the issue of corporate welfare is that these egregious programs could be discussed openly and publicly in a focused proceeding. The exposure of a substantial portion of the federal budget—indeed, an overall reappraisal of what the federal government does—is a long-needed corrective to the current state of affairs.

Suggested Readings

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—Prepared by Stephen Slivinski

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