9. Corporate Welfare

Congress should

- terminate programs that provide direct grants to businesses;
- eliminate programs that provide research and other services for industries;
- end programs that provide subsidized loans or insurance to businesses;
- eliminate trade barriers designed to protect U.S. firms in specific industries from foreign competition atthe expense of higher prices for American consumers;
- base defense procurement contract decisions on national security needs, not on the number of jobs created in key members' districts; and
- eliminate the income tax loopholes carved out solely for specific companies or industries and substantially lower the tax rate so that there is no net revenue increase.

The federal government currently spends roughly $75 billion a year on programs that provide subsidies to private businesses. Two years ago both Congress and the Clinton administration pledged to attack that pervasive corporate safety net. They have had very little success. Virtually every corporate welfare program that existed in 1994 is still squandering taxpayer dollars today. Many have had their budgets increased. If the size and cost of the federal government are ever going to be reduced, those taxpayer rip-offs must be eliminated.

What Is Corporate Welfare?

It seems as if everyone is opposed to corporate welfare. The problem is that not everyone defines it in the same way. Corporate welfare should be carefully defined as any government spending program that provides unique benefits or advantages to specific companies or industries. That includes programs that provide direct grants to businesses, programs that provide research and other services for industries, and programs that provide subsidized loans or insurance to companies.

There are more than 100 such corporate subsidy programs in the federal budget today, with annual expenditures of roughly $75 billion. Terminating those programs could save taxpayers more than $400 billion over the next five years.

Some analysts employ a broader definition of corporate welfare that includes targeted corporate tax loopholes. But allowing corporations to keep more of their own earnings is not a form of welfare. It is their money, after all. To label such loopholes as welfare, one essentially must maintain that all money belongs to the government, and thus any portion that government allows you to keep is a gift.

Furthermore, simply closing tax loopholes without simultaneously reducing tax rates would put billions more dollars into the hands of the federal government. American businesses are certainly oversubsidized, but they are also overtaxed and overregulated. The last thing we need is a tax hike.

Nevertheless, targeted tax breaks are certainly bad policy. Because they provide special treatment for politically powerful industries, such tax breaks run counter to the notion that all taxpayers should be treated the same.

Furthermore, targeted tax breaks create distortions in the workings of the economy. Government steps in and creates an uneven playing field by granting tax breaks to particular industries. As a result, our economy's resources do not go toward their most efficient use, which makes it more difficult for America's businesses to be successful.

While targeted tax breaks are not corporate welfare, they are bad policy and should be eliminated. However, such tax reform should only be done on a revenue-neutral basis, or preferably as a net tax cut. That is, since closing loopholes broadens the tax base, tax rates must be correspondingly reduced to avoid an overall increase in taxes.

Categories of Corporate Welfare

Working from the definition of corporate welfare as "any government spending program that provides unique benefits or advantages to specific companies or industries," we identify three main categories of corporate welfare.

Direct Grants to Businesses

Perhaps the most egregious example of corporate welfare is the Agriculture Department's $100 million a year Market Access Program (formerly Market Promotion Program). Created in 1985, MAP gives taxpayer dollars to exporters of food and other agricultural products to offset the costs of their overseas advertising campaigns. Though there is an amendment offered to defund this program every year, it has somehow managed to survive.

Another example is the Commerce Department's Advanced Technology Program ($200 million a year), which gives research grants to consortiums of some of the nation's largest high-tech companies. Those grants allow private companies to use taxpayer dollars to help them develop and bring to market profitable new products.

Programs That Provide Research and Other Services for Industries

The Agriculture Department's Agricultural Research Service ($700 million a year) conducts research focused on increasing the productivity of the nation's land and water resources, improving the quality of agricultural products, and finding new uses for those products. Those activities enhance the profitability of one specific private industry, the agricultural industry.

The Energy Department's Energy Supply Research and Development Program ($2.7 billion a year) aims to develop new energy technologies and improve on existing technologies. Its activities include applied research-and-development projects and demonstration ventures in partnership with private-sector firms.

The Commerce Department's National Oceanic and Atmospheric Administration ($1.9 billion a year) provides services such as mapping, charting, and weather forecasting that are beneficial to specific private industries. Furthermore, those services are already being provided by the private sector.

Programs That Provide Subsidized Loans or Insurance to Businesses

The Export-Import Bank ($700 million a year) uses taxpayer dollars to provide subsidized financing to foreign purchasers of U.S. goods. Its activities include making direct loans to those buyers at below-market interest rates, guaranteeing the loans of private institutions to those buyers, and providing export credit insurance to exporters and private lenders.

Similarly, the Overseas Private Investment Corporation ($70 million a year) provides direct loans, guaranteed loans, and political risk insurance to U.S. firms that invest in developing countries.

12 Worst Corporate Welfare Programs

- Market Access Program (Agriculture Department)
- Advanced Technology Program (Commerce Department)
- Technology Reinvestment Project (Defense Department)
- Export Enhancement Program (Agriculture Department)
- Maritime Administration Operating-Differential Subsidies
- Forest Service road and trail construction
- Export-Import Bank
- Overseas Private Investment Corporation
- International Trade Administration
- Small Business Administration
- Energy Supply Research and Development
- Agricultural Research Service

The Problem with Corporate Welfare

Corporate welfare programs are often purported to be pro-business. They are not. Such programs do nothing to promote a freer economy. They make it less free. Here are seven reasons why such policies are misguided and dangerous:

1. **The federal government has a disappointing record of picking industrial winners and losers.** The average delinquency rate for government loan programs (8 percent) is almost three times higher than that for commercial lenders (3 percent). The Small Business Administration delinquency rate reached over 20 percent in the 1980s, and the Farmers Home Administration delinquency rate has approached 50 percent.
2. **Corporate welfare is a huge dram on the federal treasury.** Every year $75 billion of taxpayer money is spent on programs that subsidize businesses. Meanwhile, politicians proclaim that we can't afford a tax cut.
3. **Corporate welfare creates an uneven playing field.** By giving selected businesses and industries special advantages, corporate subsidies put businesses and industries that are less politically well connected at a disadvantage.

4. **Corporate welfare fosters an incestuous relationship between business and government.** All too often, the firms and industries that contribute the most to political campaign coffers are the largest recipients of government handouts.
5. **Corporate welfare programs are anti-consumer.** For instance, the Commerce Department has estimated that the sugar subsidy program costs consumers several billion dollars a year in higher prices.
6. **Corporate welfare is anti-capitalist** As Wall Street financier Theodore J. Forstmann has put it, corporate welfare has led to the creation in America of the "statist businessman," who has been converted from a capitalist into a lobbyist.
7. **Corporate welfare is unconstitutional.** Corporate subsidy programs lie outside Congress's limited spending authority under the Constitution. Nowhere in the Constitution is Congress granted the authority to spend taxpayer dollars to subsidize the computer industry, or to enter into joint ventures with automobile companies, or to guarantee loans to favored business owners.

The central premise behind corporate welfare programs is that the best way to enhance business profitability is to do so one firm at a time. In fact, the best thing government can do to promote economic growth is to simply get out of the way and let private entrepreneurs with their own capital at risk determine how the economy's resources will be directed. That means creating a level playing field, which minimizes government interference in the marketplace, and dramatically reducing the overall cost and regulatory burden of government. Terminating the dozens of ridiculous corporate welfare programs and reforming the tax code are essential parts of bringing that about.

Suggested Readings

Moore, Stephen, and Dean Stansel. "Ending Corporate Welfare As We Know It." Cato Institute Policy Analysis no. 225, May 12, 1995.

________"How Corporate Welfare Won: Clinton and Congress Retreat from Cutting Business Subsidies." Cato Institute Policy Analysis no. 254, May 15, 1996.

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

—Prepared by Dean Stansel