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Corporate Welfare Lives On and On

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Congress created the usual special interest frenzy with its latest iteration of the farm bill. Agricultural subsidies are one of the most important examples of corporate welfare—money handed out to businesses based on political connections. The legislation suffered a surprise defeat in the House, being viewed as too stingy. But it is certain to return.

Fiscal responsibility is out of fashion. The latest federal budget, drafted by a Republican president and Republican-controlled Congress, blew through the loose limits established under Democratic President Barack Obama. The result is trillion-dollar deficits as far as the eye can see.

Spending matters. So does the kind of spending. Any amount of corporate welfare is too much.

Business plays a vital role in a free market. People should be able to invest and innovate, taking risks while accepting losses. In real capitalism there are no guaranteed profits. But corporate welfare gives the well-connected protection from many of the normal risks of business.

Business subsidies undermine both capitalism and democracy. Allowing politicians to channel economic resources toward their preferred ends distorts investment and trade. Moreover, turning government into an engine of illicit profit encourages what economists call rent-seeking. Well-organized special interests usually triumph over the broader public and national interest.

Explained Mercatus scholar Tad DeHaven, then a budget analyst at the Cato Institute: “Corporate welfare often subsidizes failing and mismanaged businesses and induces firms to spend more time on lobbying rather than on making better products. Instead of correcting market failures, federal subsidies misallocate resources and introduce government failures into the marketplace.”

While corporate welfare suggests money for big business, firm size is irrelevant. There is no substantive difference between, say, the Small Business Administration and the Export-Import Bank. Both turn capitalism into a rigged game of Monopoly.

Aid comes in many forms. There is spending, typically in grants, loans, and loan guarantees; limits on competitors, such as tariffs and quotas; tax preferences, attached to broader tax bills to benefit individual companies and industries. All help ensure business profits.

Agriculture in particular has spawned a gaggle of sometimes bizarre subsidies. Payments, loans, crop insurance, import quotas, and more underwrite farmers. When these distort the marketplace, further efforts are concocted to address those dislocations. A dairy program created milk surpluses, which in turn encouraged state price fixing that generated massive cheese stockpiles, in turn triggering giveaways to the poor. The federal government killed off cows even as it continued to subsidize milk.

Money also goes to agricultural enterprises through the Rural Business-Cooperative Service, which supports "business development." Through it, observed the Cato Institute's Chris Edwards, Washington subsidizes "utilities, housing developers, and a vast range of other businesses, such as auto shops, tractor companies, clam producers, carwashes, and pharmaceutical firms." The defeated farm bill even included $65 million in special health care subsidies for agricultural associations. Ironically farm households enjoy higher median income and wealth than non-farm households.

The Market Access Program subsidizes agricultural exports. So do the Emerging Markets Program and Foreign Market Development Program. Other programs support general trade and investment. For instance, the Export-Import Bank is known as Boeing's Bank. It provides cheap credit for foreign buyers of American products. Ironically this gives foreign firms, such as airlines that purchase Boeing airplanes, an advantage over U.S. carriers, which must pay full fare. Ex-Im's biggest beneficiary in recent years has been China, especially its state-owned firms.

Contrary to its claims, Ex-Im is not vital for American exports: it backs fewer than 2 percent of them. Around 10 companies benefit from roughly two thirds of the organization's largesse. Ex-Im likes to say it makes money. But the real cost is channeling economic resources to the politically favored.

The Overseas Private Investment Corporation provides another carefully camouflaged subsidy. OPIC underwrites U.S. investment—recipients have ranged from Papa John's Pizza to the Ritz-Carlton—in potentially unstable nations. If the project pays off, investors win. If not, the rest of us lose. OPIC's real cost includes channeling business investment into protected regions and industries. American businesses hoping to make money in foreign markets should not expect American taxpayers to guarantee those profits.

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At the other end of the commercial spectrum is the Small Business Administration. Smaller firms are a vital part of the American economy and play an important cultural, community, and family role. Yet small businesses are not an underserved market. There is no dearth of, say, liquor stores, bakeries, or antique shops. (Personally, I would love to see an antique shop on every street corner.) SBA is a response to a political opportunity, not an economic need.

Much corporate welfare is disguised in broader terms. The Commerce Department's Economic Development Administration subsidizes "development" in "distressed communities," meaning the agency underwrites business, with dubious results. The Department of Housing and Urban Development's Community Development Block Grants do much the same. So does the Appalachian Regional Commission. Cato's Chris Edwards complained that "these are pork-barrel handouts, not proper federal activities." There are some 180 "economic development" programs of one sort or another.

The Rural Utilities Service (once the Rural Electrification Administration) continues, never mind that rural America got electricity decades ago. Today RUS underwrites service in wealthy resort areas and has expanded into broadband internet and even television service. The Federal Communications Commission has several programs to subsidize phone service. The Commerce Department includes the Minority Business Development Agency, which underwrites companies that qualify as minority-owned.

The Bureau of Land Management (mis)manages federal lands, subsidizing use of rangeland by ranchers, for instance. There are federal subsidies to develop, finance, and promote fisheries. There are incentives for airline companies to serve small markets. Foreign Military Financing is presented as a national defense measure, but in most cases the chief beneficiaries are arms makers. There is money to develop high-speed rail and aid shipyards, while the Jones Act imposes huge costs on consumers to preserve expensive U.S. merchantmen.

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There are many housing subsidies, most notably mortgage support and tax preferences, though the latter were trimmed by last year's tax bill. Federal Reserve monetary policy also is a massive subsidy for housing industry enterprises and other asset-based businesses. The Trump administration is pushing subsidies for what the president calls "beautiful" coal power plants.

Federal research and development outlays also offer bountiful benefit to business. The more basic the R&D, the better the argument that the public interest is being served. But even there, warned DeHaven, "the government's basic research can be unproductive and pork-barrel in nature." The closer to commercialization, the more the expenditures are essentially corporate welfare. Alas, Uncle Sam has a hideous record of choosing winners and losers. Most often he chooses the politically influential, which can mean picking losers.

That certainly was the case in the area of "green" energy, for instance. The Obama administration funneled $535 million worth of loan guarantees to Solyndra, which President Barack Obama called an "engine of economic growth." The company filed for bankruptcy in 2011 after spending $1.8 million on its Washington lobbyists. *The Washington Post* later reported that $3.9 billion in Energy Department grants and financing flowed to 21 companies backed by firms connected to five Obama administration staffers and advisers.

The Advanced Technology Vehicles Manufacturing program provides $25 billion in loans for development of cars powered by alternative fuels. Tesla is a major beneficiary. Some players enjoy multiple benefits. DeHaven pointed to Enron, which "received billions of dollars in aid for its projects from the Export-Import Bank, the Overseas Private Investment Corporation, the U.S. Trade and Development Agency, the U.S. Maritime Administration, and other agencies." When the firm collapsed taxpayers were stuck with several bills.

Although most public attention falls on direct expenditures, trade "protection" is no less a form of corporate welfare. Both tariffs and quotas allow domestic manufacturers to charge more for their products. Unfortunately, the cost of this form of corporate welfare is hidden from the public. Tariffs and other fees alone come to around $40 billion a year. Estimating the cost of quotas and other non-financial restrictions is much harder.

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Tax preferences are another means of corporate welfare. Buried in the tax code, they often are difficult to identify. Measures that affect only one firm or industry, in contrast to those with general economic impact, should be treated as subsidies. Some measures are both, such as the mortgage interest deduction.

The Tax Foundation once calculated that "special tax provisions" cost more than $100 billion annually in lost revenue. Toss in just the mortgage interest deduction and the total jumps dramatically. Although last year's tax bill covered important policy issues, it also incorporated more than a few preferences called "tax extenders."

States and localities also offer subsidies, many through grants, free property, and tax preferences to attract businesses to a particular area. *The New York Times*pointed to the case of General Motors: "For years, mayors and governors anxious about local jobs had agreed to G.M.'s demands for cash rewards, free buildings, worker training and lucrative tax breaks." Estimates of these costs run between $50 billion and $80 billion.

With the annual federal deficit again approaching $1 trillion, ending corporate welfare alone would not restore fiscal sanity in Washington. But it would be a good down payment. Killing corporate welfare also would help answer the question: does the system operate only for the influential and elite? Ending welfare for profit-making companies should be a starting point for any effort to balance the budget.

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