



In budget fight, GOP should target corporate welfare

By: Timothy P. Carny – October 22, 2013

President Obama speaks during an event in the Rose Garden of the White House on Monday....

Congress's next tax and spending fight will take place in a special conference of budget leaders from the House and Senate.

Both parties can play their traditional role, with Democrats demanding tax hikes and defense cuts while Republicans demand tax cuts and domestic-spending cuts. Alternatively, Republicans could try something different: Demand cuts in corporate welfare, insist any tax hikes start with loophole-closing and concentrate tax cuts on the middle class.

If Republicans set free-market populist goals in the budget conference, they will be on the right side of both policy and politics -- with the added benefit of forcing President Obama to reveal himself as a corporatist.

Corporate welfare should be the first spending on the chopping block. Corporate welfare costs taxpayers nearly \$100 billion a year, according to a study by the Cato Institute.

The Department of Agriculture spent \$25 billion in corporate welfare last year, according to the Cato study, authored by Tad DeHaven. For instance, the Agricultural Marketing Service spends \$1.3 billion a year. The Department's Risk Management Agency spends \$3.8 billion a year running the wasteful crop insurance program, which subsidizes banks for selling insurance to cover crop failure or price fluctuations.

Republicans, back in day, spoke of abolishing the Department of Commerce. These days, Cato estimates Commerce shells out \$4.1 billion annually in corporate welfare, including the \$2.2 billion boondoggle called the Broadband Technologies Opportunity Program. The New York Times in February told the tale of an 11-student elementary school in rural Colorado that got a third high-speed Internet connection at a huge cost to taxpayers, and with a huge benefit to a handful of private contractors.

The Federal Housing Administration spent \$15.7 billion on mortgage subsidies. These subsidies help some low-income people get mortgages (not always to their long-term benefit), but they also subsidize politically connected businesses like homebuilders, realtors, and mortgage bankers. (The National

Association of Realtors spent \$8.2 million lobbying last quarter, more than any other single-industry group.)

Cato's definition of corporate welfare is pretty narrow, limited to "direct and indirect subsidies to small businesses, large corporations, and industry organizations."

Government also tilts the playing field in favor of the large and well connected through the tax code: tax breaks for certain industries, tax credits for buying certain products and tax complexity that the biggest businesses have mastered.

If President Obama is looking for revenue — and Democrats are always looking for revenue — Republicans should offer to close special-interest tax breaks.

Corporate tax carveouts provide about \$30 billion a year in corporate welfare, according to Will McBride of the Tax Foundation. The Research & Development tax credit gets plenty of bipartisan love, and it has some virtues, but it often just rewards companies for their ability to classify all sorts of activities as research and development.

Congress last decade created the Domestic Production Deduction as a manufacturing subsidy. Obama wants to exclude from this deduction some politically unpopular industries, like oil and gas. Republicans should counter by offering to repeal the whole thing as part of a broader tax reform.

There are plenty of small corporate tax breaks for energy — from coal to solar power — that can also be repealed in the name of ending corporate welfare.

Many tax breaks for individuals amount to corporate welfare and tax breaks for the rich. The deduction for mortgage interest, for instance, is another huge subsidy for homebuilders, lenders, and realtors.

Eliminating the mortgage deduction outright would be political suicide and unfair to current homeowners (disclosure: like me) who bought their house at a price inflated by the deduction. But Republicans could aim to phase it out, from the top down. Start by disallowing it for vacation homes. Then, as Sen. Mike Lee has proposed, cap it at \$300,000 of mortgage, so that mansions in McLean get no more deduction than middle-class homes in Levittown.

And Republicans ought to quit seeking tax cuts for the rich. The number one tax Republicans should try to cut during the forthcoming budget conference should be the payroll tax: Cut the rate, create an exemption that grows with family size, or provide a middle-class child tax credit against payroll tax liability.

Cutting corporate welfare spending and plugging loopholes can't balance the budget — especially if they're paired with middle-class tax relief. But Republicans would do well to fight these fights, in the name of fairness — and in the name of showing whose side President Obama is actually on.