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Where to Cut the Federal Budget? Start by Killing Corporate Welfare

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Most politicians want to cut the federal budget in theory. Few want to cut it in practice. So it is with corporate welfare, which is enthusiastically supported by Democrats and Republicans alike.

The federal budget is filled with outrageous, inappropriate, useless, counterproductive, and simply wasteful spending. Washington has become an endless soup kitchen for special interests, with a grant or loan seemingly available for every interest group with a letterhead and at least three members.

Yet Congress resists making even the smallest cut in federal outlays. Every program has a constituency which argues that its favorite expenditure is more important now than ever before. Never mind that the U.S. has been running trillion dollar deficits since 2009. Never mind that Social Security and Medicare have an unfunded liability in excess of $100 trillion. Never mind that America faces a fiscal crisis. Every program must be preserved, lest the world as we know it come to a disastrous end.

Legislators need to find some political courage and take a meat ax to the budget. It is a target-rich environment. Admittedly, there are some essential programs, such as the judicial system. But even where Washington is doing something useful, say national law enforcement, many of its activities are not justified. For instance, the FBI performs a useful role, but not the Drug Enforcement Agency, which tosses people in jail for hurting themselves. Kudos to the Justice Department for targeting child pornographers, but not for prosecuting gamblers, who should be left alone in a free society.

Unless Congress transforms middle class welfare programs, most notably Social Security and Medicare—which despite fake "contributions" and "trust funds" are not paid for by their recipients—Uncle Sam will need to declare bankruptcy. The "defense" budget has become another form of foreign aid, subsidizing the defense of everyone in the world except the American people. Why is Washington in effect subsidizing the European welfare state?

Moreover, the federal budget is filled with a potpourri of grants, loans, loan guarantees, and other subsidies for virtually everyone in America. The doors of the federal Treasury have been open for years to anyone inclined to pillage the public. Of course, the beneficiaries argue that their enrichment is in the public's interest. Imagine how Americans would suffer if, for instance, ethanol producers didn't receive multiple subsidies. Imagine the national hardship if homeowners had to pay the full cost of buying their houses. Imagine the mass weeping and gnashing of teeth if companies had to pay for their own research!

Among the most outrageous expenditures is corporate welfare. Desperate businesses now overrun Washington, begging for alms. Believing that profits should be theirs while losses should be everyone else's, corporations have convinced policymakers to underwrite virtually every industry: agriculture, education, energy, housing, manufacturing, medicine, transportation, and much more.

My Cato Institute colleague Tad DeHaven has published a new study, "Corporate Welfare in the Federal Budget," on business subsidies, which he figures to cost about $100 billion a year. Slashing corporate welfare obviously won't balance the budget—which is why middle class and defense welfare also have to go on the chopping block. However, cutting business subsidies would be a good start to balancing the budget. Moreover, going after corporate welfare is essential to create a budget package that the public will see as fair.

Corporate welfare reflects politics at its worst. Local businessmen are important constituents who seek aid in return for political support. Local and state officials press legislators to win federal subsidies for businesses within their jurisdictions. National companies and associations spend generously on campaign contributions and lobbying campaigns.

Although liberal Democrats often are perceived as anti-business, they usually are more pro-government. Which means that many support corporate welfare as enthusiastically as do Republicans, who usually are pro-business even if perceived to be anti- (or at least not quite as pro-) government.

President Obama is no different. Despite its push for more business regulation, the Obama administration ramped up federal financial support for business. Subsidies for the insurance industry were the foundation of the health care "reform" bill, which also was backed by big pharmaceutical companies and the American Medical Association, which expected increased demand for their products and services.

The administration is pushing dreamy business boondoggles, such as high-speed rail, including a ludicrous $4.9 billion line between Las Vegas, Nevada and Victorville, California (near Los Angeles). Thank you Senate Majority Leader Harry Reed. There also are abundant subsidies for "alternative" energy, which have been distinguished by their wastefulness. Unfortunately, the president's corporate friends in the solar industry have a proclivity for bankruptcy.

Observes DeHaven, "Recent subsidy scandals—such as the failure of solar manufacturer Solyndra—have heightened public awareness of the waste and injustice of corporate welfare. But wasteful corporate welfare has a long bipartisan history." Which make such expenditures a good bipartisan target for cutting.

The largest single source of business subsidies is the Department of Agriculture, with $25.1 billion. For the most part crop payments go to large farmers, who are big businessmen. There also are a variety of other subsidies for rural America, including the Rural Utilities Service, the successor agency to the Rural Electrification Agency, created during the New Deal to spread electricity across the country. Most every American has electricity today, but that hasn't stopped the government from continuing to subsidize these services. There obviously is no such thing as a temporary government program.

The Department of Energy follows with $17.3 billion of corporate welfare. There are subsidies for all manner of energy and conservation projects. Subsidies for traditional fuels once were in favor. President Jimmy Carter initiated a massive and massively wasteful effort to develop synthetic fuels. President Obama has been tossing away large sums on "alternative" energy. Rather than wasting taxpayer funds on politically-inspired projects, energy research and development should be left to the private companies which will profit from successful projects.

Number three in the corporate welfare Hall of Shame is the Department of Housing and Urban Development, with $16 billion in loot for special interests. The vast majority of that is delivered in the form of mortgage subsidies. Money also goes to underwrite business in the name of "community development"—the ultimate in "trickle down" government subsidies. DeHaven's numbers do not include the subsidies which continue through quasi-public Fannie Mae and Freddie Mac, the epicenter of the 2008 financial crisis.

Next on the list is the National Institutes of Health which spends $13.8 billion on applied research and development. One can argue for governmental support for basic research, but private business has the incentive to find practical applications. Especially at a time of budget stringency, companies should be left to undertake R&D likely to yield private gain.

The Department of State sits at number five with $5.2 billion. One would normally not think of State as a fount of corporate welfare, but it is the home of "foreign aid," including Foreign Military Financing. The latter's purpose is to underwrite American arms exporters. In fact, many other financial transfers to poorer nations are intended to enrich U.S. exporters, while "Food for Peace" agricultural shipments are primarily alms for American farmers rather than poor foreigners.

Number six is the Department of Defense, which spends $4.7 billion on applied R&D. Some share of the weapons purchased by the Pentagon also should be considered to be corporate welfare, since Congress often mandates procurement of weapons which the military doesn't want. Legislators hope to create local jobs by enriching arms makers. Politicians long have misused taxpayer money to enrich political supporters. But weakening America's defense for political reasons is especially outrageous.

The Department of Commerce transfers about $4.1 billion to businesses. Indeed, this agency's primary role is to enrich business. There is more applied R&D, the boondoggle "Economic Development Administration," trade subsidies, and more. Even some of the activities of the Census Bureau, which performs legitimate work, are directed at commercial promotion.

Coming in at number eight is the Small Business Administration, which tosses $3.2 billion to commercial enterprises. The U.S. suffers no shortage of businesses, but the SBA does its best to mulct taxpayers in order to underwrite impoverished liquor stores, laundries, and the like.

Next on the list is NASA, which devotes $2.8 billion to applied research. In theory, the agency's main role is to massage America's national ego. However, corporate America is a clear, if unintended, beneficiary at the public trough.

Number nine is the Department of Interior, with $2.6 billion in corporate welfare. The Bureaus of Land Management and Reclamation subsidize development throughout the West. Support includes cut-rate grazing fees and timber concessions, as well as artificially cheap water. A secondary cost of these forms of corporate welfare is environmental degradation.

Then comes the Department of Transportation, with $2 billion in business subsidies. The biggest single boondoggle is money for high speed rail. Next are maritime subsidies, followed by airline assistance. Like the Department of Energy, DOT's main job is to enrich the industry for which it was created.

The National Science Foundation falls in at number 11 with $450 million in applied research. Other independent agencies account for smaller amounts. The International Trade Commission and Trade and Development Agency aid American exporters and domestic firms facing foreign competition. The Appalachian Regional Commission underwrites business in the name of "development." Other expenditures also primarily serve corporate interests.

Spending is the most obvious but not only form of corporate welfare. Tax preferences, often called "tax expenditures," are the functional equivalent of direct outlays. Failing to tax is not the same as spending, since all income does not belong to the government. However, when the government provides a narrow exemption from general tax obligations it essentially is writing a check. While appropriations have some level of transparency, tax preferences often are obscurely drafted and dropped into larger bills, hidden from public view. Taxpayers then are unaware that they are being looted.

Regulations act as another common form of corporate welfare. Federal rules limit competition, provide competitive advantage, and reduce consumer power. Notes DeHaven: “Regulatory capture occurs because some businesses in an industry that is being regulated have an incentive to influence the drafting of regulations to give themselves an economic advantage over consumers or other businesses.” Indeed, agencies like the Interstate Commerce Commission became renowned for protecting and enriching the very companies they were regulating.

Another common business subsidy is trade protection. Tariffs and quotas act as direct subsidies for domestic industries at consumer expense. These rules spread distortions widely throughout the economy, costing billions of dollars. For instance, raising the price of steel harms the auto industry, both raising prices and reducing competitiveness.

Of course, the beneficiaries of corporate welfare claim the money is not about them. Notes DeHaven, they argue that forcing taxpayers to enrich particular interests redresses “market failure” or improves corporate competitiveness. In fact, government failure is far worse than market failure. The best way to improve economic competitiveness is to improve government economic policies, particular excessive borrowing, inefficient regulation, and excessive taxation.

The problem with government economic intervention is simple: while participants in the marketplace are imperfect and make mistakes, the marketplace involves people and institutions from across the nation and even world. Their collective judgment will almost always be better than that of ambitious and self-interested politicians and apparatchiks who control government. Explains DeHaven: “Policymakers do not possess special knowledge that enables them to allocate capital more efficiently than markets. They are no more clairvoyant about market trends and scientific breakthroughs than anyone else. Thus, when the government starts choosing industries and technologies to subsidize, it often makes bad decisions at taxpayer expense.”

As a result, argues DeHaven: “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.” That is, government intervention in the name of fixing private problems almost always exacerbates private problems.

Federal benefits for a favored few businesses also unfairly put business competitors at a competitive disadvantage. For example, the Federal Housing Administration has the federal Treasury behind it, giving it an enormous advantage over private guarantors in insuring mortgages. Companies able to borrow directly from Uncle Sam or with federal backing enjoy lower interest costs than their competitors.

Upsetting the competitive balance hurts the rest of us. For instance, federal water subsidies “encourage farmers to grow crops in areas where it is inefficient or unsuitable to do so,” notes DeHaven. That’s not only financially wasteful; it also is environmentally destructive.

That is just one example of the massive distortions caused by corporate welfare. Among the worst were pervasive housing subsidies, which flooded the industry with money. When the federally-inflated bubble finally burst, the entire economy crashed in 2008.

Moreover, corporate welfare politicizes the economy. Washington’s economic policy never has been genuine laissez faire. Indeed, in the new republic Alexander Hamilton was not alone in promoting corporate welfare before there were modern corporations. But the problem has exploded as government has expanded.

Observes DeHaven: “The more that the government intervenes in the economy, the more lobbying activity is generated. The more subsidies that it hands out to businesses, the more pressure lawmakers face to hand out new and larger subsidies. As the ranks of lobbyists grow, more economic decisions are made on the basis of politics.” And the more we all pay.

Ironically, while the Left tends to rail against special interests and their role in election campaigns, its support for ever larger government inevitably enhances the role of special interests and their role in election campaigns. If government is actively enriching and destroying companies and entire industries, they have a right to influence government. The more booty that is available for political winners, the more business will spend and the harder it will fight to achieve victory.

But the greater outrage is support for corporate welfare from the Right. Political conservatives wax poetic about the virtues of the free market, but conservative office-holders often are pro-business rather than pro-market. No Republican president is pure: DeHaven points to HUD subsidies in the Reagan administration, which were provided by Secretary Samuel Pierce “to friends and private business associates.”

Unfortunately, corporate welfare has proved to be resilient even in the face of pressure to cut a trillion dollar plus deficit. As Public Choice economics observes, concentrated interests organize to defeat the diffuse public interest. So it is with business subsidies. Those benefiting from federal largesse work very hard to keep their ill-gotten gains.

But America can no longer afford politics as usual. Washington’s finances are in crisis. Only a ruthless assault on unnecessary spending will stop the U.S. from eventually becoming Greece or worse. A good place to start cutting federal outlays is money for dependent corporations.