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## Corporate Welfare in the Federal Budget

Rising federal spending and huge deficits are pushing the nation toward a financial and economic crisis. Policymakers should find and eliminate wasteful, damaging and unneeded programs in the federal budget. One good way to save money would be to cut subsidies to businesses in the form of corporate welfare, says Tad DeHaven, a budget analyst on federal and state budget issues for the Cato Institute.

Policymakers claim that business subsidies are needed to fix alleged market failures or to help American companies better compete in the global economy. However, 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.

According to analysis by the Cato Institute, corporate welfare in the federal budget costs taxpayers almost \$100 billion a year. Of all the departments of the federal government, the Department of Agriculture is the greatest supplier of corporate welfare, laying out some \$25 billion in the forms of farm aid, investment and risk mitigation.

The Departments of Energy and Housing and Urban Development were also big spenders, handing out \$17 billion and \$16 billion, respectively.

Perhaps the single greatest impact of this system of corporate handouts is that it essentially substitutes the preferences of policymakers for those of regular consumers. Further, it encourages greater lobbying efforts and unethical actions that can allow businesses to take greater advantage of governmental largesse.

Moreover, direct outlays to corporations are only a single form of governmental support for businesses. Assistance can take several other forms as well.

The government can create tax preferences that favor businesses in certain industries or those maintaining a certain size. It can also impose regulations that, while ostensibly harmful to an industry, can actually help to construct viable barriers to entry. Such efforts can also be expanded in the form of trade barriers that protect businesses from foreign competitors.

When all such additional actions are taken into account, it is likely that the true size of government-sponsored corporate welfare is even larger than the figure above suggests.

Source: Tad DeHaven, "Corporate Welfare in the Federal Budget," Cato Institute, July 25, 2012.

For text:

<http://www.cato.org/publications/policy-analysis/corporate-welfare-federal-budget>

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