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Cato: Congress Can Cut $100 Billion in Corporate Welfare to Cut Spending, Debt

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A new report argues that business subsidies transfer wealth from the average taxpayer to political favorites and finds that $98 billion will be spent on corporate welfare, or business subsidies, in the federal budget in fiscal year 2012.

The study, "Corporate Welfare in the Federal Budget," by the Cato Institute highlights multiple areas where taxpayers' dollars are being squandered and counters arguments for keeping business subsidies in place, including the popular argument that says subsidies fill the gap where the private sector allegedly has failed.

Its author argues that one of the first places Congress can cut spending is to corporations that are much better off than the average taxpayer.

The following federal departments received billions in taxpayer cash to fund department projects:

• Department of Agriculture ($25.2 billion)
• Department of Energy ($17.3 billion)
• Department of Housing and Urban Development ($16 billion)
• Department of State ($5.2 billion)
• Department of Defense ($4.7 billion)
• Department of Commerce (4.1 billion)
• Department of Interior ($2.6 billion)
• Department of Transportation ($2 billion)

Nine other programs and agencies, including the recently renewed Export-Import Bank, International Trade Commission, the Small Business Administration, the Overseas Private Investment Corporation, totaled $20.4 billion in subsidies.

"Federal debt is approaching levels that most economic experts believe is dangerous," writes author of the study Ted DeHaven, the Cato Institute's budget analyst on federal and state budget issues.

He continues: "If the nation is to avert a debt crisis, federal policymakers need to dramatically cut spending. Whole programs need to be terminated, and handouts to businesses are a good place to start."

Besides creating economic and political problems, business subsidies also raise constitutional problems, the author contends.

DeHaven contends that while the Federal government does have enumerated powers, or powers only granted to Congress by the Constitution, that does not include the power to choose one business over another and give subsidies to aid their financial endeavors.

“The enumerated powers granted to the federal government under Article 1, Section 8 were intended to limit the scope of federal authority. However, over time the courts have adopted an excessively broad interpretation of these powers,” DeHaven writes.

Because of the interpretation of enumerated powers that has evolved over time, federal power is virtually limitless in many areas.

Even when lawmakers attempt to justify new programs constitutionally by invoking the general welfare clause (Article 1, Section 8) DeHaven calls that view of the law “expansive.”

“That provision authorized the federal government to collect and spend money on the activities specified,” he writes. “It does not authorize the federal government to use its taxing powers to bestow widespread benefits on favored commercial interests.”

Dehaven concedes that a state, not the federal government, has the right to subsidizes businesses if it so pleases, but adds that “would still represent bad economic policy.”

Corporate welfare, including subsidies to minority businesses, also goes against the concept of equality of the law, the author argues, because it gives advantages to businesses that receive the subsidies at the expense of those that don’t.

Since burdensome regulation and taxes affect all, the government could better aid all by removing those barriers.

Subsidizing big business is old business, Dehaven argues, and the federal government has been doing so under different both Republican and Democratic administrations going back to Alexander Hamilton.

“Unfortunately, we are living today with all the problems created by Hamilton’s flawed vision of the government “helping” the private sector,” he writes.

Concrete examples of corporate welfare include:

- the Department of Commerce’s Minority Business Development Agency spending much of its $24 million budget on “bureaucratic overhead costs.”

-the Commerce Department, under the Clinton Administration, raising money for the Democratic Party “by giving top business executives access to promotion trips abroad in exchange for donations.”

-HUD Secretary Sam Pierce routinely giving “out grants, loans, and other sorts of subsidies to friends and private business associates” under Reagan. HUD also created programs that subsidized mortgage lenders that GOP contributors often benefited from.

-Enron receiving $3.7 billion through the federal government under George W. Bush.

-“Relatively well-off farm businesses and landowners” – farm households’ average income in 2010 was $84,000 whereas the average income of all U.S. households was $67,530 (a 25 percent difference) – received taxpayer dollars under President Obama. “The largest 10 percent of recipients received 68 percent of all commodity subsidies in 2010,” Dehaven writes.

-The now-bankrupt Solyndra receiving a $535 million loan guarantee from the Energy Department, a loan that Solyndra was originally denied under Bush in 2007 but finally approved in September 2009, again under Obama.

Other types of corporate welfare include tax preferences, such as those tax credits doled out by Reagan's HUD secretary; regulations, which the public generally assumes works in its interest; and various trade barriers, such as price supports on sugar.

"In reality, regulations often serve the interests of the industry being regulated—a situation referred to as "regulatory capture," Dehaven writes.

Public support hasn't been in favor of keeping the corporate welfare system alive.

The report cites two 2011 Rasmussen Reports which found that a majority thought the federal government should not guarantee "loans issued by private to small businesses" or finance military weapons sold by U.S. companies to foreign countries. Many thought that farm subsidies should be abolished altogether.

Yet, because subsidies represent only a small portion of the average household's tax bill, and the efforts of those who lobby on behalf of subsidy recipients, efforts to repeal subsidies remain complicated.

Additionally, a recent study shows that Congressional hearings are "dominated by witnesses in favor of more spending."

Former Yale Professor James Payne "surveyed 14 congressional committee hearings and found that "in those 14 hearings, 1,014 witnesses appeared to argue in favor of programs and only 7 spoke against them, an imbalance of 145 to 1," Dehaven writes quoting Payne.

Many witnesses typically include representatives from lobbying groups and seldom admit a program is a failure.