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The Corporate Welfare State

A cause to unite the tea party and the 'Occupy Wall Street' crowd.

The Occupy Wall Street protesters aren't good at articulating what they want, but one of their demands is "end corporate welfare." Well, welcome aboard. Some of us have been fighting crony capitalism for decades, and it's good to have new allies if liberals have awakened to the dangers of the corporate welfare state.

Corporate welfare is the offer of special favors—cash grants, loans, guarantees, bailouts and special tax breaks—to specific industries or firms. The government doesn't track the overall cost of these programs, but in 2008 the Cato Institute made an attempt and came up with \$92 billion for fiscal 2006, which is more than the U.S. government spends on homeland security.

That annual cost may have doubled to \$200 billion in this new era of industry bailouts and subsidies. According to the House Budget Committee, the 2009 stimulus bill alone contained more than \$80 billion in "clean energy" subsidies, and tens of billions more went for the auto bailout and cash for clunkers, as well as aid for the mortgage industry through programs to refinance or buy up toxic loans.

This industrial policy model of government as a financial partner with business can sound appealing, but the government's record in picking winners and losers has been dreadful. Some of the most expensive flops include the Supersonic Transport plane of the mid-1970s, Jimmy Carter's \$2 billion Synthetic Fuels Corporation (the precursor to clean energy), Amtrak, which hasn't turned a profit in four decades, and the most expensive public-private partnership debacle of all time, Fannie Mae and Freddie Mac, which have lost \$142 billion of taxpayer money. A few other illustrative industry handouts:

- The ethanol subsidy, benefitting mostly corn farmers and corporate fuel blenders in the Midwest, costs about \$6 billion a year through an array of tax subsidies, tariffs and mandates while making fuel and food more expensive.

- The Federal Communications Commission recently approved spending up to \$4.5 billion a year on a Universal Service Fund to bring broadband development to rural America. Broadband service is already rapidly expanding (with some \$65 billion in private capital) absent the subsidies, but Internet providers and telecom firms pressed for the program. This is in addition to a \$5 billion Broadband Technology Opportunities Program run by the Commerce Department.
- The Department of Agriculture's Market Access Program helps advertise and promote the products of agribusinesses like the USA Poultry & Egg Export Council and Sunkist, the orange growers consortium that has received more than \$800 million in the life of the program.
- Crop price supports for wheat, corn, rice, sugar and soybean farmers are supposed to help struggling family farms, but at least half the subsidies go to large and wealthy farmers and corporations. Congress can't seem to wean the farm belt off these payments even though commodity prices and farm incomes are near an all-time high. Restricting those funds to farmers with incomes below \$250,000 would save \$30 billion over the next decade.
- Some \$8 billion has gone via Mr. Obama's Advanced Technology Vehicle Manufacturing Loan Program to the likes of Nissan, Ford and Tesla Motors for more fuel-efficient cars. Another \$2.4 billion has been routed to manufacturers trying to build battery-operated electric cars. As with the loan guarantees to Solyndra, if these companies succeed, the private investors get rich. If they fail, taxpayers lose.

According to the Pew Research Center's "subsidy scope" data base, direct expenditures in the energy industry more than quadrupled in Mr. Obama's first year in office to \$18 billion from less than \$4 billion in 2008.

That doesn't include loan guarantees. The real scandal of Solyndra, the solar company that recently went bust, isn't that the taxpayers lost more than \$500 million on a lousy bet by the Energy Department, but that the feds keep making these deals even when their rate of return is likely to be zero or negative. The Solyndra loan constituted less than 2% of the \$40 billion in outstanding loan guarantees to dozens of energy companies, according to the House Budget Committee.

Republicans, for their part, favor handouts to the nuclear industry. Over the years the feds have provided billions of dollars in loan guarantees and cut-rate insurance to nuclear plants, though even nuclear-utility executives say new plants may not make economic sense in a world of cheap and abundant natural gas. Last month House Speaker John Boehner backed a \$2 billion Energy Department loan guarantee sought by USEC Inc. for a uranium-enrichment plant in Piketon, Ohio.

- The Export-Import Bank has a portfolio of \$14.5 billion of outstanding loan guarantees to assist major U.S. exporters. More than 90% of the funds went to 10 corporations, including Boeing (\$6.4 billion), General Electric (\$1.043 billion) and Caterpillar (\$424 million).

Defenders claim government subsidies for business are justified because American firms must compete with subsidized firms from China and Europe. But as Milton Friedman was famous for advising: Never fight a subsidy with a subsidy. This industrial policy was also the rage in the 1970s and 1980s when Japan's keiretsu and Ministry of International Trade and Industry were going to dominate the world, but we know how that has worked for Tokyo.

For those who say this is good for American competitiveness, consider that ending all corporate welfare programs would finance a substantial cut in the 35% corporate income-tax rate that makes U.S. business less competitive but does a poor job of raising revenue because of these loopholes. A big rate cut would generate far more jobs and wealth than passing out checks to businesses one at a time.

As important as this economic damage is the corrosive effect that corporate welfare has on public trust in government. Americans understand that powerful government invariably favors the powerful, who have the means and access to massage Congress and the bureaucracy that average citizens do not. This really is aid to the 1% paid by the other 99%.

Yet the parade of subsidies gets longer each year, perhaps, as the old joke goes, because in Washington Republicans love corporations and Democrats love welfare. As House Budget Chairman Paul Ryan puts it: "How can we save billions of dollars from unjustified subsidy and entitlement programs, if we can't get corporate America off the dole?"

With American federal debt headed toward the worst European levels, this is an issue that should unite the tea party, the Occupy Wall Street protesters and Congressional deficit-cutters.