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DEHAVEN: Cut big business's corporate welfare

Record deficit requires subsidy slash

By Tad DeHaven

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With the federal government closing in on its fourth consecutive budget deficit in excess of $1 trillion, the national debt is hurtling toward dangerous levels. If the nation is to avert a debt crisis, federal policymakers need to aggressively balance revenues. Business subsidies, or "corporate welfare," are a good place to start.

A new study from the Cato Institute estimates that the federal government will spend almost $100 billion on corporate welfare this year. That includes direct and indirect subsidies to small businesses, large corporations and industry organizations. These subsidies are handed out from programs in many departments, including the departments of Agriculture, Commerce, Energy, and Housing and Urban Development.

Americans are sick and tired of crony capitalism, which should make business subsidies ripe for cutting. Indeed, the federal government's bailout of the financial industry has galvanized the public's perception that business interests enjoy disproportionate political favor. A 2010 Pew Research Center/National Journal poll found that only 13 percent would be more likely to vote for a candidate who supported federal loans to banks, while 46 percent said they would be less likely.

While subsidies for "clean energy" enjoy more public support than those for banks, their outcomes are damning. Hundreds of millions of taxpayer dollars have been lost year after year on businesses that were simply not financially viable — the solar power firm Solyndra being the most famous example. Politicians often justify business subsidies by claiming that they are needed to fix supposed imperfections in the marketplace. But as the ongoing debacle with clean energy subsidies shows, policymakers do not possess special knowledge that enables them to allocate capital more efficiently than markets. When the government starts choosing industries and technologies to subsidize, it often makes bad decisions at taxpayer expense.

The hit to taxpayers is problem enough — the damage done to the broader economy is arguably worse. Policymakers, for example, have long argued that the government should subsidize housing to make the "American dream" available to more people. But that dream has turned into a nightmare in the aftermath of the housing meltdown and financial crisis, which was precipitated, in part, by government efforts to foster homeownership. However, instead of learning their lesson, policymakers have continued to intervene and subsidize. In recent years, they have been using the Federal Housing Administration to try to help prop up the housing market and the agency's lending portfolio has soared to more than $1 trillion. That might be all right for the banking industry since the FHA insures lenders for 100 percent of the principal and interest on mortgages it backs, but it could spell trouble for taxpayers and the economy down the road.

The problems with such subsidies are therefore evident even when one assumes that policymakers are motivated by the noblest of intentions. The reality is that lawmakers often have base parochial interests in mind when they support subsidy programs. During a Senate committee hearing on the Department of Energy in February, Sen. Al Franken, Minnesota Democrat, spent his allotted time badgering Secretary Steven Chu about a federal loan his department conditionally approved for a company in his state in 2010 but had yet to be finalized. On the other side of the aisle, dozens of congressional Republicans — many critical of the administration's energy subsidy policies — were found to have quietly sent letters to Mr. Chu requesting handouts to businesses in their backyards.

An even better example is farm subsidies, which redistribute wealth from taxpayers to a small group of relatively well-off farm businesses and landowners. In 2010, the average income of farm households was $84,400 — or 25 percent higher than the $67,530 average of all U.S. households. Numerous large corporations, and even some wealthy celebrities, receive farm subsidies because they are the owners of farmland. Yet policymakers make grandiose claims that the handouts are necessary to "preserve the nation's food supply," even though their chief motivation is to curry favor with their farming constituents.

Therein lies the biggest obstacle to cutting these subsidies: special interests. Whereas the cost of each particular subsidy represents just a tiny portion of the average household's total tax bill, the businesses that receive subsidies have a strong incentive to spend time and money cajoling policymakers into protecting their benefits. Lawmakers are surrounded by political operatives and persistent lobbyists representing countless special interests. The result is an endless stream of input encouraging them to spend more money.

The recent failure of congressional Republicans to rein in corporate welfare — despite campaign promises to seek substantive budget cuts — demonstrates the power that the special interests wield in Washington. Freshmen Republicans from the "Tea Party class" were instrumental in passing a bloated farm bill out of the House Agriculture Committee. In June, only 33 percent of GOP freshmen voted to eliminate the Community Development Block Grant program, which subsidizes businesses. In May, most freshmen voted to spare the Economic Development Administration. Republicans also recently teamed up with Democrats to save a program that subsidizes airlines. And 127 Republicans joined most Democrats in voting to defeat an amendment that would have shut off the Department of Energy loan program that gave birth to Solyndra.

Ultimately, the voting public will have to hold members responsible for continuing to lavish subsidies on commercial interests. Policymakers need to be forced to explain why they chose to support corporate welfare at a time when the government's red ink is mounting and the average worker continues to face economic uncertainty. Otherwise, the business-as-usual attitude in Washington that so many policymakers claim to be against will continue to lead the country toward fiscal Armageddon.

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