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Corporate Welfare Update

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Shortly after coming to office, Bush budget director Mitch Daniels noted, "It was not the federal government's role to subsidize, sometimes deeply subsidize, private interests."[1] In the federal budget, private interests are subsidized directly through such programs as aid to farmers and subsidized loans for foreign trade. Private interests are also subsidized indirectly through such programs as federal energy research.[2]

Overall, the Bush administration has proposed a very modest reduction in "corporate welfare" subsidies in its fiscal year 2003 budget. The budget includes $86 billion in corporate welfare for FY2003, down 7 percent from $93 billion in FY2002, according to Cato Institute estimates (see Table 1).[3]

1. Corporate Welfare Spending by Department

(budget authority, $millions)

Department	FY 2002 Estimated	FY 2003 Proposed	Change
Agriculture	$35,049	$30,291	-14%
Health & Human Services	$9,156	$11,203	22%
Transportation	$10,702	$10,703	0%
Energy	$5,873	$5,853	0%
Housing & Urban Dev.	$7,802	$5,507	-29%
Defense	$4,003	$4,461	11%
Interior	$1,967	$1,857	-6%
Commerce	$1,967	$1,735	-12%
All other agencies	$16,144	$14,616	-9%
Total	$92,663	$86,226	-7%

Source: *Budget of the U.S. Government, FY 2003.*

The Good News

The Bush administration has launched an effort to grade the effectiveness of federal spending activities and move funds away from poorly performing programs. In addition, the administration has proposed a few needed cuts in corporate welfare spending (see Table 2). The Department of Agriculture's Bioenergy program is not renewed for 2003. This program gives $150 million per year to Archer Daniels Midland and other producers of ethanol and similar products. Also, spending cuts are proposed for Department of Commerce technology subsidy programs, including the Manufacturing Extension Partnership and the Advanced Technology Program. The Corps of Engineers is also slated for a budget reduction.

Unfortunately, even the administration's modest reforms may not receive support from Congress. For example, the administration proposes to de-fund the Maritime Administration's Title XI loan guarantee program for U.S. shipbuilders. In a recent high-profile scandal involving the program, American Classic Voyages received a $1.1 billion loan guarantee to build two cruise ships in Sen. Trent Lott's (R-Miss.) hometown.[4] But before completion, the company went bankrupt and left federal taxpayers with a $200 million tab. Not dissuaded by such scandals or by opposition from the administration, a House Armed Services subcommittee voted in April to continue funding the program.

The Bad News

Nearly all corporate welfare programs are slated for renewal this year. The Bush budget typically just calls for better management of bad programs. For example, the budget zeroed out the Clinton administration's failed Partnership for a New Generation of Vehicles program for U.S. automakers after eight years and $1.5 billion in taxpayer costs. Despite the subsidies, U.S. automakers have not yet delivered a hybrid car to consumers, while unsubsidized Honda and Toyota have introduced the Insight and Prius hybrid models, respectively.

Nonetheless, the administration proposes replacing PNGV with a similar $150 million per year program called Freedom CAR to help automakers create a fuel cell vehicle. The budget says while the PNGV program had a "misguided focus," the new pork barrel car project will have "clear goals" and an "accountable manager."

The administration missed the opportunity to propose eliminating the Export-Import Bank and the Overseas Private Investment Corporation in the wake of the Enron scandal. These federal entities together loaned Enron more than $1 billion, of which taxpayers are still owed $965 million on loans for projects in India and elsewhere.[5] Such federal lending schemes make no sense because large firms have easy access to private financing.[6] The Bush budget includes spending reductions for both agencies, but as long as they survive, they threaten to grow again in future years.

Many other spending-cut opportunities were missed in the budget. The Community Development Block Grant program was criticized for doling out pork projects to high-income communities, but the budget includes only a 6 percent cut to this $5 billion program. Also, the administration did not propose privatizing even the most obvious candidates, such as Amtrak, the Power Marketing Administrations, and the air traffic control system.

2. Proposed FY 2003 Spending Changes for Corporate Welfare

(budget authority, $ millions)

Program	FY 2002 Estimated	Change, FY 2002–2003
Increase		
Agriculture - statistics service	$120	25%
PNGV/Freedom CAR (energy dept. only)	$127	18%
Agriculture - economics research	$70	17%
Foreign military financing	$3,650	13%
Grants-in-aid for airports	$3,176	7%
Air traffic control operations	$5,792	5%
International Trade Administration	$356	6%
Corporation for Public Broadcasting	$375	4%
Energy supply research	$670	4%
Energy Information Administration	$81	2%
Decrease		
Bioenergy program	$150	-100%
Maritime Administration loan program	$250	-98%
Manufacturing Extension Partnership	$111	-88%
Export-Import Bank	$1,233	-50%
Highway demonstration projects	$245	-30%
Agriculture - marketing service	$971	-25%
Advanced Technology Program	$187	-22%
Amtrak	$621	-16%
Corps of Engineers	$4,753	-13%
Community development block grants	$5,000	-6%

Source: *Budget of the U.S. Government, FY 2003.*

The Ugly News

The agriculture industry is the hungry hog of federal corporate welfare. Farm welfare totaling $35 billion in 2002 includes direct crop subsidies, export subsidies, subsidized insurance, and various research programs. Crop subsidies have soared to more than $20 billion per year the past three years, up from an average of $9 billion per year in the early 1990s.[7] Congress and the Bush administration have agreed to a new farm subsidy bill that will cost taxpayers $190 billion during the next decade, despite heavy criticism from analysts across the political spectrum.

Eliminating Corporate Welfare

Corporate welfare is buried throughout the budget, thus making it difficult for taxpayers to find out which firms are receiving their hard-earned cash. A first reform step would be for the administration to provide a detailed cross-agency listing of companies and cash received for all direct business subsidies in its annual budget documents.

Beyond disclosure, a corporate welfare termination commission should be established, akin to the successful military base closing commissions of the 1990s. Sen. John McCain (R-Ariz.) has proposed creating such a commission, although he has a different view of corporate welfare than that proposed here.[8] Nonetheless, his proposal suggests that a corporate welfare commission, combined with full disclosure, could be a promising way to end this large burden on the nation's taxpayers.

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1 Quoted in Richard Wolfe, "Bush Set for Battle over Spending and Tax Cuts," *Financial Times*, March 1, 2001, p.1.
2 For further details, see Steve Slivinski, "The Corporate Welfare Budget: Bigger Than Ever," Cato Policy Analysis no. 415, October 10, 2001.
3 All figures are budget authority values from the *Budget of the U.S. Government, FY2003*. Defense includes foreign military financing which is under International Assistance in the budget.
4 John Porretto, "Lott: Cruise Ship Loss May Top $200M," *Associated Press*, January 12, 2002, p. A6.
5 CBSnews.com, "Enron Projects Received Government Loans," February 24, 2002.
6 Aaron Lukas and Ian Vasquez, "Rethinking the Export-Import Bank," Cato Trade Briefing no. 15, March 12, 2002, p. 14.
7 Chris Edwards and Tad DeHaven, "Farm Subsidies at Record Levels as Congress Considers New Farm Bill," Cato Briefing Paper no. 70, October 18, 2001.
8 The McCain bill (S. 2181) includes tax breaks in its definition of corporate welfare. Certainly, the tax code should be simpler and flatter, but tax provisions are not properly defined as corporate welfare in our view. See Slivinski, p. 24.