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CONGRESS, NOT CLINTON, SUPPORTS THE END OF CORPORATE WELFARE

(Updating *Rolling Back Government: A Budget Plan to Rebuild America*, May 1995)

Secretary of Labor Robert Reich struck a resounding chord last November when he challenged Washington policy groups and Congress to identify and target unnecessary business subsidies. As he correctly pointed out, those who wish to reduce the deficit should be willing to target "corporate welfare," not just cut other domestic programs. Curiously, when the Clinton Administration released its Fiscal Year 1996 budget a few months later, the President actually proposed little to end corporate welfare. In stark contrast to the White House, it is mostly conservative research organizations and the new congressional leadership that have answered Reich's challenge.

For decades, the federal government has been providing American businesses with billions of dollars in annual subsidies. These have been justified by proponents as necessary to enhance U.S. competitiveness in the world economy, encourage the development of high technology products and research, maintain a strong national defense, or assist socially disadvantaged groups. Most of these spending subsidies are concentrated in three industry groups—agribusiness, transportation, and energy and natural resources—to support research, advertising, and other costs of doing business that achieve these goals.

Experience indicates that these direct spending subsidies for business do not achieve their goals and are not in America's economic interest. These subsidies can be expensive and actually hurt the economy. Subsidizing one business or industry rather than another distorts private investment decisions, taking resources from more efficient uses. Over the last ten years, for example, the federal government has spent about $14 billion annually subsidizing production of wheat, corn, cotton, rice, and other commodities. More than half of this money flows to farmers with gross farm sales in excess of $100,000 annually. This has led to crops being planted and harvested at great—but subsidized—cost in places where production is uneconomic. Allowing farmers to make their production decisions based on market forces rather than government subsidies would result in a far more efficient farm economy.[1]

Some programs are just a waste of money, providing little economic benefit. The U.S. Small Business Administration (SBA) is an excellent example. SBA is supposed to aid the development and expansion of small businesses through direct and guaranteed low-interest loans worth more than $11 billion annually. However, SBA's loan loss rate is greater than that of private lenders, and the U.S. General Accounting

1 For further information, see John Frydenlund, *Freeing America's Farmers: The Heritage Plan for Rural Prosperity* (Washington, D.C.: The Heritage Foundation, 1995).

Office has questioned whether the SBA's assistance actually helps stimulate small business development at all. Other examples of waste include monies from the $4.6 billion Community Development Block Grant program to pay for swimming pools, carousel renovations, and other forms of local pork and the $17 million spent each year by the U.S. Travel and Tourism Administration to help the $55 billion tourism industry promote tourism in the United States.

Research organizations and the new leadership in Congress, rather than President Clinton, have taken the first step toward ending corporate welfare (see attached chart). The Heritage Foundation, along with many other research organizations such as the Cato Institute and the Progressive Policy Institute, has reviewed the federal budget and identified dozens of corporate welfare programs that should be eliminated.[2] In *Rolling Back Government: A Budget Plan to Rebuild America*, The Heritage Foundation identified more than three dozen direct spending subsidy programs as corporate welfare that should be reduced or eliminated, producing more than $100 billion in savings over the next five years.[3] As the attached table illustrates, many programs were included in the House and Senate budget proposals, but not in the President's budget.

Rather than end corporate welfare, Clinton's budget supports the addition of the high technology and information services sectors to the list of heavily subsidized industries. The nation's economy has been shifting from manufacturing to a high technology and information services base. Although this has been occurring without government help, the Clinton Administration wants Congress to enact generous subsidies to promote high technology products and research. Government subsidies would tend to enrich those who already have detected good profit opportunities, or else to direct private capital into less efficient investments. One example of the latter is the Administration's support for high speed rail systems. The General Accounting Office (GAO) reported that, without federal support, such systems are unlikely to be built because the private sector does not consider them to be financially viable.[4] The costs of laying one mile of track for a high speed system can run between $10 million and $20 million. Nevertheless, the Administration is proposing to spend more than $1.3 billion over the next five years, and American taxpayers may never even see one mile of high speed track.

Taxpayers may recall that programs like this have been proposed and funded more than once before, only to turn into expensive white elephants. In the late 1960s, the federal government spent nearly $1 billion on the Supersonic Transport, which went bankrupt and never flew a single passenger. In the late 1970s, the federal government spent more than $2 billion on the Synthetic Fuels Corporation to produce new forms of energy, but it was shut down without producing a single kilowatt of power.[5]

Only when direct business subsidies clearly provide a benefit in the national interest, such as a strong defense, should they be preserved. Because national defense is a legitimate function of the federal government, "uneconomic" investments in the research and development of new defense technology are justifiable. For example, R&D investments within the Department of Defense are critical to preserving the na-

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2 Examples of the reports issued by these groups include: Stephen Moore and Dean Stansel, *Ending Corporate Welfare As We Know It* (Washington, D.C.: The Cato Institute, May 12, 1995); Robert J. Shapiro, *Cut-and-Invest: A Budget Strategy for the New Economy* (Washington, D.C.: Progressive Policy Institute, March 1995); Janice Shields, Ph.D., *Aid for Dependent Corporations (AFDC) 1995* (Washington, D.C.: Essential Information, 1995); Citizens United to Terminate Subsidies, *The Green Scissors Report: Cutting Wasteful and Environmentally Harmful Spending and Subsidies* (Washington, D.C., January 1995).

3 See Scott A. Hodge, ed., *Rolling Back Government: A Budget Plan to Rebuild America* (Washington, D.C.: The Heritage Foundation, 1995).

4 U.S. General Accounting Office, Transition Series, *Housing and Community Development Issues* (GAO/OCG-93-22TR), December 1992, p. 21.

5 These two examples are drawn from Moore and Stansel, *Ending Corporate Welfare As We Know It*, p. 6.

tion's security and cannot be considered corporate welfare—even though they should be scrutinized for waste. On the other hand, the part of NASA's budget spent on aeronautical research and development programs that subsidize R&D for the commercial aircraft industry should be eliminated.

As the House and Senate work on a final budget resolution, lawmakers must resist the last-minute pressure of corporate special interests and retain the cuts in corporate welfare. If Congress does not adopt the House proposals in the final budget bill, it will show a lack of will to make even the most basic cuts in corporate welfare. It will be guilty of the same hypocrisy as the Clinton Administration. Congress must demonstrate evenhandedness in ending wasteful, unnecessary programs, and start making significant cuts in corporate welfare in the FY 1996 budget.

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Corporate Welfare Cuts In The Federal Budget

Program Cut	5-Year Savings in millions	Cut Contained in: Clinton Request	Senate Resolution	House Resolution	Heritage Plan
(151) Terminate Titles I and III of the P.L. 480 International Assistance Program	**$1,510**	✓	✓	✓	✓
(155) Phase out Ex-Im Bank and OPIC over 5 years	**$2,299**		✓	✓	✓
(271) Terminate DOE energy supply research and privatize labs	**$8,751**		✓	✓	✓
(271) Eliminate funding for the Clean Coal Technology Program	**$864**	✓	✓	✓	✓
(271) Close down the Rural Utilities Service, including the Rural Electrification Administration	**$174**				✓
(271) Privatize the Power Marketing Administrations	**$3,372**	✓	✓	✓	✓
(271) Privatize the U.S. Uranium Enrichment Corporation	**$1,499**	✓	✓	✓	✓
(272) Terminate all Department of Energy conservation and efficiency research	**$2,148**		✓	✓	✓
(301) Privatize Bureau of Reclamation and Army Corps of Engineers hydroelectric dams; Terminate the Corps' inland waterway responsibilities	**$8,813**	✓	✓	✓	✓
(302) Close down the Natural Resource Conservation Service	**$3,502**				✓
(302) End the Conservation Reserve Program	**$6,359**				✓
(306) Close down the Bureau of Mines	**$676**				✓
(306) Close down the U.S. Geological Service	**$1,648**				✓
(351) Phase-out farm income subsidies and price support programs including all dairy subsidies	**$16,324**		✓	✓	✓
(351) Terminate the Market Promotion Program	**$434**				✓
(351) Terminate export subsidy programs such as the Export Enhancement Program and the Foreign Agriculture Service	**$4,190**		✓		✓
(352) Terminate commercial agriculture research programs	**$3,537**		✓	✓	✓
(352/371) Close down the Farmers Home Administration (FmHA)	**$3,811**		✓		✓

The figures in this table are the total outlay savings that would be realized by eliminating the programs. The numbers in parentheses refer to the relevant budget function numbers in the federal budget. For more information see The Heritage Foundation's *Rolling Back Government: A Budget Plan to Rebuild America*.

A check mark indicates that the program is addressed to a significant degree in the House or Senate Resolution. It does not mean that the program would be completely eliminated, as proposed in the Heritage plan.

Program Cut	5-Year Savings	Clinton Request	Senate Res.	House Res.	Heritage Plan
(376) Close down the Small Business Administration	$4,063				✓
(376) Close down the U.S. Travel and Tourism Administration	$169		✓	✓	✓
(376) Close down the Minority Business Development Agency	$183		✓	✓	✓
(376) Terminate the Manufacturing Extension Partnership and the Advanced Technology Program	$1,871		✓	✓	✓
(376) Close down the National Telecommunications and Information Administration	$212			✓	✓
(376) Close down the Bureau of Export Administration	$183			✓	✓
(376) Close down the International Trade Administration	$1,145		✓	✓	✓
(401) Terminate federal subsidies to Amtrak	$3,930		✓	✓	✓
(401) Close down the Federal Transit Administration	$10,815		✓	✓	✓
(402) Terminate NASA commercial aeronautic research and development	$1,701				✓
(402) Close down the Essential Air Service program	$177			✓	✓
(402) Halt funding for the Next Generation High-Speed Rail program; the Intelligent Transportation Systems Program; and the Pennsylvania Station Redevelopment Project	$1,227			✓	✓
(403) Terminate the Maritime Administration and end such subsidies as Operating-Differential Subsidies and the Ocean Freight Differential program	$753			✓	✓
(452) Close down the Appalachian Regional Commission.	$797		✓	✓	✓
(452) Eliminate the Economic Development Administration	$1,248			✓	✓
(452) Eliminate the current system of Community Development Block Grants	$7,600		✓	✓	✓
(452) Terminate federal funding for the Tennessee Valley Authority	$634			✓	✓
(452) Close down the Pennsylvania Avenue Development Corporation	$26	✓	✓	✓	✓
(503) Terminate federal support for the Corporation for Public Broadcasting	$1,543		✓	✓	✓
(552) Terminate the Health Education Assistance Loans (HEAL) program	$81				✓
Total Corporate Welfare Cuts	**$108,269**				
Number of Programs Cut		6	22	27	38