



3 Actions for Combatting Government Favoritism

If the pre-budget rumors are true, President Donald Trump is making good on his promise to drain the swamp by putting a few corporate welfare programs, such as the Export-Import Bank and the Overseas Private Investment Corp., on the chopping block. Unfortunately, getting rid of cronyism in the federal government won't be easy, given the deep-rooted and mutually beneficial relationship between politicians and commercial interests. Still, the new administration and Congress could take some action in the coming year to move in that direction.



Before I start detailing how, let me say that abolishing all corporate welfare programs is the right thing to do. Corporate welfare, a practice in which government officials provide preferential treatment (such as loans, subsidies or regulatory preferences) to hand-picked firms or industries, is unfair. It picks winners and losers for no other reason than that they're politically connected or not politically connected. The winners are usually big and able to invest in lobbying on Capitol Hill. The victims are often unseen and usually don't have a press office.

Favoritism also slows the economy because entrepreneurs and businesses misdirect their resources. They spend time lobbying for those privileges instead of finding new ways to create value for customers.

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Short of terminating programs, the first thing Congress could do is adopt fair-value accounting. Under the government's current accounting scheme, most direct and guaranteed loans look as if they cost taxpayers nothing and even create the illusion of returning money to the Treasury. Moving to a fair-value accounting system would actually capture the direct and opportunity costs of these lending programs.

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That was the finding of a 2014 Congressional Budget Office report that looked at the real cost of three lending mechanisms — the Department of Education's four largest student loan programs, the Ex-Im Bank's six largest export credit programs and the Federal Housing Administration's single-family mortgage guarantee program. In our new Mercatus Center paper, "Curbing Favoritism in Government," Tad DeHaven and I explain that when the CBO switched to a fair-value accounting method like the one employed by the private sector, it found that rather than save or make money, these programs combined will cost taxpayers — excluding administrative expenses — roughly \$120 billion over the next 10 years. A fair-value accounting system would make these programs' costs more transparent.

Second, Congress could create a Base Realignment and Closure-like commission to eliminate favoritism. An independent commission made of non-politician experts would be charged with the narrow focus and



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specific instructions of reviewing programs, tax expenditures and regulations that confer privileges on commercial interests. The commission would then submit a package targeting the elimination of the most egregious corporate welfare programs. It would go into effect unless a joint resolution disapproving all of the commission's recommendations were passed and signed by the president.

Like BRAC, which it's modeled on, this would likely be a very effective tool to curb cronyism. BRAC successfully neutralized special interests, DeHaven and I say, as it provided "policymakers political cover by enabling them to support the overall package of base closures while putting up a public fight against closures back in the district to demonstrate they stuck up for their constituents' jobs."

Finally, lawmakers could start taking a real stand against corporate welfare. When then-Sen. Tom Coburn, R-Okla., successfully stood up against spending \$223 million worth of taxpayers' money through earmarks to reconstruct an Alaskan bridge connecting an airport on Gravina Island (population 50) to the town of Ketchikan (population 8,900) — a bridge he labeled the "Bridge to Nowhere" — not only did we remember his gesture in the name of taxpayers but also it helped kill earmarks once and for all.

Coburn was following in the steps of former Sen. William Proxmire, a Wisconsin Democrat. Proxmire left Congress in 1989 and was an outspoken opponent of government waste, including corporate welfare. He would famously highlight a program that wasted public money and the public officials supporting it and give them "Golden Fleece Awards." According to *Time* magazine, his constant denouncing of government waste and those who supported it made Proxmire "the bane of defense contractors, pork-barreling colleagues and consumer frauds." His persistence won him very rare but important victories.

Lawmakers could emulate this model to fight against the unfairness of corporate welfare and stand for its unseen victims. Their efforts might not always be successful, but they would be remembered for trying to bring some justice and balance against those giant beneficiaries of favoritism.

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