Corporate Welfare Spending Hits $100 Billion in FY 2012

Federal subsidies distributed to the private sector in Fiscal Year 2012 cost American taxpayers nearly $100 billion, according to a startling new report by the libertarian Cato Institute. "That includes direct and indirect subsidies to small businesses, large corporations, and industry organizations," the think tank stated in its policy analysis.

Corporate welfare, which generally comes in the form of loans or subsidies, are distributed by an array of federal agencies, with the top donors consisting of the departments of Energy, Commerce, Agriculture, and Housing and Urban Development. And while lawmakers squander billions of taxpayer dollars every year to fund their own corporate interests, the federal government will run a deficit in excess of $1 trillion this year.

According to the Cato study, the most prominent corporate-welfare donor was the Department of Agriculture, doling out more than $25 billion. Most of the subsidies dispersed by the agriculture department have gone to some of the nation's largest farms, the authors added. The second largest donor was the Energy Department, giving out nearly $18 billion in subsidies in FY 2012. Other programs on the list include:

> The Department of Housing and Urban Development (HUD)'s Community Development Block Grant program ($285 million); the Commerce Department's Broadband Technology Opportunities Program ($2.2 billion); attempts by Transportation Department policymakers to develop a high-speed rail network ($1.2 billion) and the Interior Department's Bureau of Land Management ($1.4 billion) land-use programs.

"If the nation is to avert a debt crisis, federal policymakers need to dramatically cut spending," reported the study, which was authored by Cato budget analyst Tad DeHaven. "Whole programs need to be terminated, and handouts to businesses are a good place to start."

While there is no perfect science to determine the federal government's total dollar amount spent on corporate welfare, DeHaven formulates a number of $98 billion. That cost, however, does not address factors such as the higher price of goods and services that consumers must pay when lawmakers scatter political privileges to their special interests. Nor does it address the economic costs of the time, money, and energy the private sector spends to secure those benefits — the act of "rent-seeking," as economists call it.

A recent study commissioned by the Mercatus Center at George Mason University observed the adverse effects rent-seeking has on economic growth, as it diminishes productivity and redirects resources to economically-unproductive areas. When governments distribute special privileges to particular businesses, entrepreneurs and corporate leaders spend their time and money asking lawmakers for those benefits, rather than honing in on ways to improve value for their customers. In describing the anomaly, the Mercatus Center's Matthew Mitchell asserts:

> Economists Kevin Murphy, Andrei Shleifer, and Robert Vishny studied this phenomenon using data from dozens of countries. They found that a 10 percentage point increase in the share of students concentrating in law was associated with 0.78 percentage point slower annual growth in per capita GDP. In other words, economic growth was slower in countries where there seemed to be more rent-seeking.
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> In this week's chart, Mercatus senior research fellow Matthew Mitchell shows how this difference compounds over time. If, since 1980, per capita GDP had grown 0.78 percentage points faster than it actually did, then 2011 per capita production would have been $54,000 rather than $43,000. "When governments dispense privileges," Mitchell says, "economic growth is diminished. This isn't just an abstract idea. It means that real people earn less money than they otherwise could."

The Cato report cites numerous examples of rent-seeking, or what it calls corporate-welfare programs gone askew, with the most renowned case being the now-defunct solar energy firm, Solyndra. In 2009, the Department of Energy gave the solar company a $535 million loan guarantee, and "[a] little more than a year after Obama's visit, Solyndra filed for bankruptcy protection," the report cited.

Other examples of corporate welfare include millions of dollars in farm subsidies and a $220,000 block grant from the Department of Housing and Urban Development to a Michigan brewer. Of course, one of history's most renowned instances of corporate welfare involved the demise of Enron, the company whose financial collapse sent 21 people to prison. In its analysis, Cato described how corporate welfare may have actually contributed to Enron's demise, while squandering billions of taxpayer dollars in the process:

> Enron Corporation is a poster child for the harm of business subsidies, particularly with regard to its disastrous foreign investments. Enron lobbied government officials to expand export subsidy programs, and it received billions of dollars in aid for its projects from the Export-Import Bank, the Overseas Private Investment Corporation, the U.S. Trade and Development Agency, the U.S. Maritime Administration, and other agencies. Enron received about $3.7 billion in financing through federal government agencies.
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> Business subsidies create damaging economic distortions. All those subsidies to Enron induced the firm to make exceptionally risky foreign investments. And the resulting losses were an important factor in the company's implosion.

Evidently, companies pursuing the Ex-Im Bank for financing aid had been subsidizing the travel costs of government employees on visits to prospective projects. For example, Exxon Mobil spent nearly $100,000 on Ex-Im Bank employees who had the responsibility of deciding whether the agency should provide financial assistance to Exxon for a gas project in Papua New Guinea. Conveniently, 11 months later, the bank authorized $3 billion in financing for the project.

"Policymakers claim that business subsidies are needed to fix alleged market failures or to help American companies better compete in the global economy," said DeHaven, in summing up the analysis. "However, corporate welfare often subsidizes failing and mismanaged businesses and induces firms to spend more time on lobbying rather than on making better products. Instead of correcting market failures, federal subsidies misallocate resources and introduce government failures into the marketplace."