

Policy Analysis

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Routing

The Corporate Welfare State *How the Federal Government Subsidizes U.S. Businesses*

by Stephen Slivinski

Executive Summary

The federal government spent \$92 billion in direct and indirect subsidies to businesses and private-sector corporate entities—expenditures commonly referred to as “corporate welfare”—in fiscal year 2006. The definition of business subsidies used in this report is broader than that used by the Department of Commerce’s Bureau of Economic Analysis, which recently put the costs of direct business subsidies at \$57 billion in 2005. For the purposes of this study, “corporate welfare” is defined as any federal spending program that provides payments or unique benefits and advantages to specific companies or industries.

Supporters of corporate welfare programs often justify them as remedying some sort of market failure. Often the market failures on which the programs are predicated are either overblown or don’t exist. Yet the federal government continues to subsidize some of the biggest

companies in America. Boeing, Xerox, IBM, Motorola, Dow Chemical, General Electric, and others have received millions in taxpayer-funded benefits through programs like the Advanced Technology Program and the Export-Import Bank. In addition, the federal crop subsidy programs continue to fund the wealthiest farmers.

Because the corporate welfare state transcends any specific agency—and therefore any specific congressional committee—one way to reform or terminate those programs would be through a corporate welfare reform commission (CWRC). That commission could function like the successful military base closure commission. The CWRC would compose a list of corporate welfare programs to eliminate and then present that list to Congress, which would be required to hold an up-or-down vote on the commission’s proposal.

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Introduction

The federal government spent \$92 billion on direct and indirect subsidies to businesses and private-sector corporate entities—expenditures commonly referred to as “corporate welfare”—in fiscal year 2006, as detailed in Table 1. In nominal terms, that’s an increase of 11 percent from fiscal 2001. In real terms, it’s a 3 percent decline. In other words, the corporate welfare state—the sum total of government programs that subsidize business in one form or another—grew at a rate just slightly slower than inflation over the past five years. But as you can also see in Table 1, many specific programs grew much faster.

The corporate welfare budget supports a wide-ranging collection of programs, descriptions of which appear in Appendix 1. Many agencies administer federal subsidies to business. The fact that the corporate welfare state is so diffuse makes it difficult for policymakers to monitor. It’s hard for any one congressional committee—even if its members are so inclined—to target much of this spending because the corporate welfare state transcends any particular agency or interest group.

For the purposes of this study, “corporate welfare” is defined as any federal spending program that provides payments or unique benefits and advantages to specific companies or industries. This broad definition includes direct subsidies and grants to specific companies, such as cash payments to farmers and research funds to high-tech companies, as well as indirect subsidies, such as funding for overseas promotion of specific U.S. products and industries. Sometimes corporate welfare supports profitable companies that don’t need any help. Sometimes corporate welfare programs prop up industries that are doing poorly in the marketplace and should be allowed to fail.

This report covers only subsidy programs that result in direct expenditures within the federal budget. It does not include tax preferences or trade restrictions. It also does not account for implicit benefits received by gov-

ernment-sponsored enterprises. Those issues are discussed in Appendix 2.

The estimate in this report differs from the annual estimate of business subsidies issued by the Department of Commerce’s Bureau of Economic Analysis.¹ The BEA definition of subsidies includes only direct transfers to corporations, such as crop support payments or export promotion subsidies that flow to specific companies. Their estimate of federal subsidy expenditures for 2005—the most recent BEA estimate available—equals \$57 billion. That’s \$35 billion less than the estimate for 2006 in this study. That’s mainly because the list of business subsidy programs in this report, unlike the BEA estimate, also includes research and development (R&D) subsidies as well as indirect subsidies such as “extension” and “demonstration” projects, which provide advice and management assistance to companies, and expenditures by agencies that enforce trade barriers and other impediments to competition, just to name a few.

In some respects, the term “corporate welfare” may not be the most apt descriptor for many of these programs. The term “welfare” seems to imply ongoing yearly support. Some federal programs, such as the annual crop subsidies paid to farmers, certainly provide that. But other expenditures, such as research grants, might provide only a one-time subsidy that is not renewed every year. So, in this report the term “corporate welfare” is used to describe the general nature of a program that subsidizes or primarily benefits business in a way that may or may not necessarily entail a repeated and ongoing transfer of resources from taxpayers.

Finally, a word about the sorts of R&D spending included in this study’s definition of corporate welfare. The federal government generally funds three sorts of research: basic, applied, and developmental. Basic research is characterized as having no immediate or direct market application. The approach taken in this study is to exclude basic research and focus instead on the sorts of research that have direct commercial application. Thus, the R&D programs included in Table 1 are those

Table 1
Corporate Welfare Programs by Agency (in millions of nominal dollars)

Department	2001 Outlays	2006 Outlays	Percentage Change
Department of Agriculture			
Agricultural Marketing Service	926	1,408	52%
Applied agricultural research and development	921	1,313	43%
Farm Security and Rural Investment programs	403	1,512	275%
Farm Service Agency			
Agricultural Credit Insurance Fund	749	636	-15%
Conservation Reserve Program	1,623	1,801	11%
Crop and farm support (Commodity Credit Corporation Fund)	34,453	32,750	-5%
Export loans	107	142	33%
Market Access Program	96	157	64%
Tobacco Trust Fund/quota buyout	-	891	N/A
Foreign Agricultural Service			
Subsidies for foreign purchase of commodities (P.L. 480)	1,260	254	-80%
Market access and development programs	69	102	48%
Trade Adjustment Assistance	-	3	N/A
Federal Crop Insurance premium subsidies	2,463	2,291	-7%
Rural Business-Cooperative Service			
Biomass commercialization subsidies	26	7	-73%
Rural empowerment zones/community grants	12	13	8%
Cooperative development grants	3	29	867%
Development loan subsidies	30	28	-7%
Rural Community Advancement Program			
Loan subsidies	415	212	-49%
Rural business grants	58	55	-5%
Rural Utilities Service			
Electrictrification and telecommunications subsidies	489	128	-74%
Total, Department of Agriculture	44,103	43,732	-1%
Department of Commerce			
Economic Development Administration	334	284	-15%
International Trade Administration	328	426	30%
Minority Business Development Agency	414	29	-93%
National Institute of Standards and Technology			
Advanced Technology Program	177	73	-59%
Manufacturing Extension Partnership	106	111	5%
National Oceanic and Atmospheric Administration			
National Marine Fisheries Service	662	811	23%
Fishery promotion and development subsidies	3	12	300%
Total, Department of Commerce	2,024	1,746	-14%
Department of Defense			
Applied R&D funding	7,691	11,814	54%
Total, Department of Defense	7,691	11,814	54%
Department of Energy			
Energy supply subsidies	1,194	964	-19%
Fossil energy research and development	385	268	-30%
Coal Research Initiative	97	310	220%

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Table 1—Continued

Department	2001 Outlays	2006 Outlays	Percentage Change
Hydrogen Fuel Initiative	-	154	
FreedomCAR/21st Century Truck Partnership	254	179	-30%
Total, Department of Energy	1,930	1,875	-3%
Department of Housing and Urban Development			
Federal Housing Administration			
Mortgage subsidies	5,209	4,470	-14%
Economic Development Initiative Grants	294	255	-13%
Community Development Block Grants	478	380	-21%
Community Development Loans and credit subsidies (Section 108)	7	11	57%
Total, Department of Housing and Urban Development	5,988	5,116	-15%
Department of State			
Foreign Military Financing Programs	4,310	4,610	7%
Total, Department of State	4,310	4,610	7%
Department of Transportation			
Federal Aviation Administration			
Commercial Space Transportation	12	11	-8%
Essential Air Service/Payments to Air Carriers	55	99	80%
Grants-in-Aid for Airports	2,017	3,841	90%
Federal Railroad Administration			
Amtrak subsidies	553	1,257	127%
Next Generation High-Speed Rail	20	28	40%
Railroad research and development	21	52	148%
Maritime Administration			
Guaranteed loan program	45	41	-9%
Ocean freight differential subsidies	28	269	861%
Maritime Security Program	98	150	53%
Total, Department of Transportation	2,849	5,748	102%
Other Programs and Independent Agencies			
Agency for International Development economic development programs	1182	1,417	20%
Appalachian Regional Commission	94	71	-24%
Bureau of Reclamation	875	933	7%
Corporation for Public Broadcasting	360	460	28%
Export-Import Bank	1,655	318	-81%
International Trade Commission	49	64	31%
National Institutes of Health—Applied Biomedical Research/ Clinical Development	7,943	12,042	52%
NASA: Aerospace technology and commercialization	1,382	884	-36%
Overseas Private Investment Corporation	51	181	255%
Small Business Administration	556	905	63%
Trade and Development Agency	54	51	-6%
Total, Other Programs and Independent Agencies	14,201	17,326	22%
Grand Total	83,096	91,967	11%

Source: Office of Management and Budget, *Budget of the United States Government* (Washington: Government Publishing Office), various years; and data from the American Association for the Advancement of Science R&D Budget and Policy Program, various years.

that intentionally seek to help develop products—called “commercialization” research—as well as those that seek to develop “dual-use technologies” with a military as well as commercial use and programs that seek to arrange “technology transfer” between government-funded labs and private-sector businesses for the purposes of advancing commercial goals.²

What’s Wrong with Federal Business Subsidies?

Supporters of federal subsidies to private industry often maintain that government support of business is in the national interest. For instance, government support is said to remedy market failure by assisting disadvantaged groups who cannot receive private funding to establish new businesses. Supporters of corporate welfare programs also justify business subsidies as a way to help maintain the competitiveness of certain critical industries. Yet those justifications do not stand up to scrutiny. There are many reasons why such policies are misguided:

Government Is Ill-Suited to Finding the “Next Big Thing”

The function of private capital markets is to direct investment to industries and firms that offer the highest potential rate of return. The capital markets, in effect, are in the full-time business of selecting corporate winners and losers. Yet the underlying premise of many federal business subsidies is that the government can direct the limited pool of capital funds just as effectively as, if not better than, markets can. The truth is that capital markets are far more agile than government and are much better suited to acting on sophisticated market signals than government ever could be.³

In addition, supporters of government programs often suggest that corporate subsidy programs are necessary to remedy some sort of market failure. On closer inspection, most of those proclaimed market failures simply do not exist. For instance, supporters of the Small

Business Administration allege that the agency provides credit for firms that could not get loans in the private capital markets. Research on the subject, however, has shown that small businesses do not face insurmountable obstacles to finding willing lenders and sources of credit funding.⁴ The market failure justification is also used by supporters of programs geared to funding high-tech research, but, as we’ll see in the Case Studies section below, the market has not failed to deliver sufficient venture capital to advance important new technological discoveries.

Corporate Welfare Programs Create an Incestuous Relationship between Business and Government

In Washington, industry trade associations and lobbying firms continually pressure lawmakers to give out new business subsidies or to protect long-standing handouts. That is a natural byproduct of a government that uses its power to give taxpayer money to favored interests. If there were no possibility that subsidies might be offered, demands for them would diminish if not disappear.

That tendency is nurtured by the problem of concentrated benefits and diffuse costs.⁵ Subsidies are usually given to a few recipients at the expense of many taxpayers. Because there are such a large number of taxpayers—and each corporate subsidy may cost each taxpayer only a few cents or a few dollars—most individual citizens don’t have an interest in lobbying against subsidies since the cost of doing so far outweighs simply paying the taxes. However, the recipients of those subsidies have a substantial interest in making sure they protect the flow of money to them. That leads to a great deal of lobbying by special interests but very little lobbying on behalf of taxpayers.

In addition, subsidies create a perverse incentive for businesses: if an entrepreneur’s competitors are receiving help from the government, it may appear to be in his or her interest to try to get some of that help, too. That incentive serves only to turn many businesspeople into lobbyists, sidetracking them

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from their role as entrepreneurs. That, in turn, leads to an overallocation of private resources to pursuing and protecting government subsidies.

Corporate Welfare Programs Violate Constitutional Principles

Direct corporate subsidies fall outside the limited enumerated functions of the federal government. Nowhere in the Constitution is Congress granted the authority to spend funds to directly subsidize industry, or to enter into joint ventures with automobile companies, or to guarantee loans to favored business owners. Yet, since the New Deal, by applying very expansive readings of the General Welfare Clause, the Supreme Court has allowed Congress to redistribute wealth from taxpayers to favored business interests.⁶ Some spending that benefits businesses, such as infrastructure spending and the funding of courts to enforce contracts, also benefits the population as a whole. But those are expenditures that benefit all companies and citizens generally and are usually not geared to

a specific activity or industry. The programs of the corporate welfare state, on the other hand, do not fit this definition.

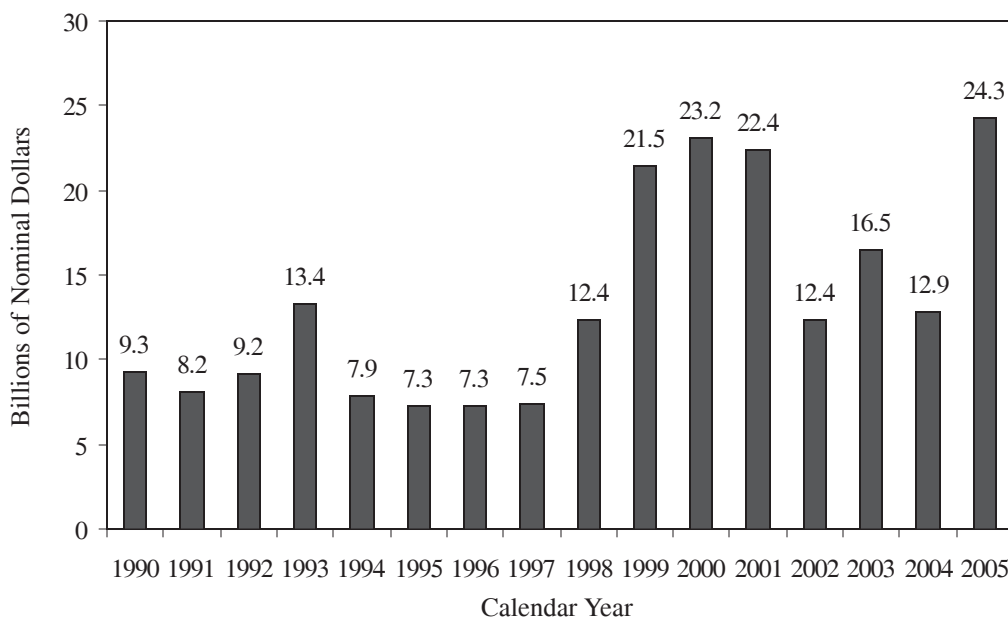
Case Studies

Case Study no. 1: Subsidies for Agribusiness

The biggest direct subsidy program in the federal budget is crop and farm subsidies. In fiscal year 2006, taxpayers footed the bill for \$21 billion in agricultural subsidies.⁷ Eleven years ago, Congress voted to phase down farm subsidies through 2001. Instead, the opposite has occurred: a series of so-called emergency spending bills and the resurrection of a price support program in 2002 have since hiked subsidy levels to near-record highs.

Figure 1 shows the trend of farm subsidy payments between 1990 and 2005. The years in which farm subsidies were the lowest (1994 through 1997) correspond with two key events: (1) a rise in commodity prices and

Figure 1
Direct Government Payments to Farmers, 1990–2004



Source: U.S. Department of Agriculture, Economic Research Service, www.ers.usda.gov/data.

(2) the passage of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996, often referred to as the Freedom to Farm Act. Subsidy levels before 1996 were set by a formula that triggered an increase in farm subsidies when crop prices fell. Starting in 1995, crop prices began to rise, thereby allowing subsidy levels to drop.

The Freedom to Farm Act, passed in 1996 when commodity prices were high and demand for subsidies was low, ended the price support program and replaced it with a declining fixed payment unrelated to market prices. Farm subsidies were scheduled to decline from \$5.6 billion in 1996 to \$4 billion by 2002.⁸ After that, crop subsidies were set to disappear.

The scheduled phaseout remained intact for about two years until Congress reversed course in 1998. When crop prices began to decline that year, Congress passed a large “emergency” supplemental appropriation that hiked total farm subsidies to \$12.4 billion. Subsequent supplemental legislation spurred farm subsidies to new heights, amounting to a total of over \$79.5 billion between 1999 and 2002. That’s \$60 billion more than the Freedom to Farm Act’s phaseout of crop subsidies would have allowed if subsidies had been cut as promised.⁹

In May 2002 President Bush signed into law a new six-year appropriation that put the final nail in the coffin of the Freedom to Farm Act’s commitment to weaning farmers from taxpayer support. Instead of zeroing out farm subsidies, the legislation created a new version of the old price support program that was estimated to cost taxpayers \$99 billion in direct subsidies over six years.¹⁰ The four fiscal years since the enactment of the 2002 farm bill have already seen an estimated \$72.9 billion spent on farm subsidies.¹¹

Although members of Congress from farm states have an interest in continuing to subsidize farmers, the United States has prospered even while the farm sector has shrunk as a percentage of the overall economy. Over the last 50 years, the number of people working and living on farms has dropped. Farm employment—including farm proprietors as well as wage and salary workers—makes up less than 2 percent of

total employment in the United States.¹² The percentage of Americans who lived on farms dropped from 16.6 percent in 1948 to around 2 percent in just over 40 years.¹³ Yet thanks to technological advances, farm productivity is at a historically high level.¹⁴

Despite what some farm-state politicians might say, farms do not need to compose a substantial portion of the economy for the United States to remain economically strong. A smaller farm sector is not a sign of economic decline. Quite the contrary: a farm sector that can produce substantial amounts of food with less capital and fewer workers is a testament to economic progress.

However, the conventional wisdom continues to view federal agricultural programs as vital to preserving impoverished and beleaguered family farms in the United States. The reality is quite different from the popular notions about farming in America today. Most farmers are relatively wealthy. Average income for farm households has exceeded the national average by 5 to 17 percent every year since 1996.¹⁵ By contrast, when large-scale federal farm subsidies began in the 1930s, farmers’ incomes were only half the national average.¹⁶ As the Department of Agriculture itself reports, “Farm households have higher incomes, greater wealth, and lower consumption expenditures than do other U.S. households.”¹⁷

Most farmers don’t receive direct subsidies from the federal government. The taxpayer-financed handouts go to only about one-third of the nation’s farmers and ranchers. So where does all the taxpayer money spent on farmers actually go? Mainly to large corporate agribusinesses and the richest farmers. In 2005, the most recent year for which comprehensive statistics are available, the richest 10 percent of all subsidy recipients received 66 percent of all subsidies.¹⁸

There are a variety of reasons to terminate farm subsidies.¹⁹ There are, however, no defensible reasons to continue them. Those programs exist today mainly as a way for politicians to shower taxpayer money on powerful interest groups.

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Many Fortune 500 companies or their subsidiaries have received millions of dollars of ATP funding.

Case Study no. 2: Subsidies for High-Tech Companies

The Advanced Technology Program and the Small Business Innovative Research program show why government is ill-suited to discover and fund the technological advances that fuel the high-tech economy.

The ATP was created in 1988 to support technological research that had the potential to provide broad-based economic benefits for the nation. The presumption was that the program, part of the Commerce Department's National Institute of Standards and Technology, would give a boost to technologies that were "pre-competitive" or "high risk" and could not get funding on their own in private capital markets. Since its inception, the program has funded more than 768 projects at a cost of at least \$2.3 billion in federal matching funds.²⁰

Program supporters suggest that ATP is a funder of last resort for high-tech businesses. However, a study by the General Accounting Office (now the Government Accountability Office) found that 63 percent of the companies that applied for ATP grants didn't look for private capital or other sources of investment before they applied for government money.²¹ That raises some serious questions: Are the projects that the government funds examples of promising but overlooked entrepreneurial initiatives? Or are they mostly examples of how savvy businesses can get the federal government to underwrite their products' R&D?

The evidence seems to indicate the latter. A recent GAO study points out that some of the biggest ATP expenditures went to research ventures that were already generously supported by the private sector. For instance, the ATP spent \$1.2 million in the early 1990s to develop a system to recognize cursive handwriting for pen-based computer inputs, such as those used in handheld devices today. In fact, this line of research had begun in the private sector during the late 1950s, and patents for workable versions of the technology were issued five years before the start of the ATP-funded project. Companies like Apple Computers and Motorola were already well on their way to coming to market

with versions of this technology. Other technologies that were already well funded and researched by the private sector were methods to expand the capacity of fiber optic cables and technology to regenerate human tissue and organs. The ATP spent roughly \$2 million to duplicate funding for R&D in those technologies.²² There is obviously no market failure here. These supposedly precompetitive technologies were able to attract substantial funding in the private sector.

ATP grants have gone to some of the biggest companies in America or their subsidiaries—all of them companies that have no trouble funding their own R&D. Over the last 12 years, many Fortune 500 companies or their subsidiaries have received millions of dollars of ATP funding (Table 2).²³ Top beneficiaries of ATP grants over the past 15 years include IBM, General Electric, Honeywell, Xerox, and Dow Chemical.

In addition to being duplicative, government funding of research often ends up simply underwriting other aspects of corporate operations, as a study of the Small Business Innovative Research program indicates. The SBIR is a less high-profile program than ATP, but its budget is actually much larger—about \$1 billion—because it consists of portions of many federal agency research budgets.

Created in 1982, the SBIR has as its goal to "stimulate technological innovation."²⁴ Instead, the result has been a crowding out of private research spending by firms receiving government money. In other words, for every dollar of SBIR grant money the average company receives, it reduces its own R&D by a dollar.²⁵ That forgone dollar of R&D money does not disappear. It goes to fund another aspect of the firm's operations. The consequence is that, instead of contributing to an overall increase in R&D spending, the federal government finds itself underwriting the profit margins of small businesses and corporations.

Case Study no. 3: Subsidies for Exporters

The mission statement of the Export-Import Bank (or Ex-Im Bank, for short) stip-

Table 2
ATP Awards to Fortune 500 Companies (1991–present)

Company	ATP Grants (\$ millions)
IBM Corporation	49.2
General Electric	32.2
Honeywell International	29.0
Xerox	28.5
Dow Chemical	24.9
Caterpillar	24.3
Motorola	20.5
3M	19.5
United Technologies	14.6
Ford Motor	13.1
Science Applications Intl.	11.5
DuPont	10.3
General Motors	9.1
Corning	8.0
Goodrich Corporation	7.9
Advanced Micro Devices	7.4
Praxair	5.5
Air Products & Chemicals	4.1
Lucent Technologies	4.0
General Dynamics	3.6
Danaher	3.3
Cummins	2.8
Northrop Grumman	2.4
Dana	2.0
Johnson & Johnson	2.0
Medtronic, Inc.	2.0
Rohm and Haas Company	2.0
Sealed Air Corporation	2.0
Texas Instruments	2.0
Owens Corning	1.9
Engelhard	1.8
Chevron Phillips	1.7
Chevron Texaco	1.7
Raytheon	1.3
Monsanto	1.1
Baxter International	1.0

Source: Author's calculations based on data from the ATP Funded Projects Database, <http://jazz.nist.gov/atpcf/prj/briefs/listmaker.cfm>.

Note: Grants to subsidiaries of each company are included in the aggregate dollar amount of the parent company. An ATP grant is counted in this table only if the Fortune 500 company is the lead grant recipient.

ulates that the bank's main purpose is to finance the purchase of U.S. goods in foreign markets.²⁶ The justification it provides for its fiscal 2008 budget request is more transparent and perhaps more honest: "to sustain U.S. jobs by financing U.S. exports."²⁷ The

Ex-Im Bank does that by using taxpayer money to subsidize loans to foreign purchasers of U.S. products and to provide loans and loan guarantees to U.S. companies seeking to enter export markets. It also provides insurance for companies investing overseas.

The Ex-Im Bank's main purpose is to finance the purchase of U.S. goods in foreign markets.

Supporters of the Ex-Im Bank suggest that government credit is needed to level the playing field for U.S. companies as they compete against foreign companies. Yet fewer than one-third of all its loans and guarantees go to counter subsidized foreign competition.

**Table 3
Export-Import Bank Long-Term Loan Guarantees to Fortune 500 Companies**

Company	Total Long-Term Guarantees (\$ millions)	Percentage of Total
Boeing	4,447.1	54.5%
General Electric	1,440.9	17.6%
Conoco Phillips	403.5	4.9%
Deere & Co.	37.6	0.5%
Raytheon	31.2	0.4%
Halliburton	12.4	0.2%

Source: Author's calculations based on data from Export-Import Bank, *2006 Annual Report* (Washington: Export-Import Bank, 2007).

The loans and guarantees that Ex-Im Bank grants to U.S. companies qualify it as the underwriter of the sales of some of the biggest Fortune 500 companies, none of which would have trouble getting funding for worthwhile overseas projects. As Table 3 shows, Boeing is the largest corporate beneficiary of Ex-Im Bank loan activity, leading many commentators to refer to the Ex-Im Bank as “Boeing’s Bank.”²⁸

Supporters of the Ex-Im Bank suggest that government credit is needed to level the playing field for U.S. companies as they compete against foreign companies that receive support from their governments. Yet the Ex-Im Bank’s most recent annual Competitiveness Report points out that fewer than one-third of all its loans and guarantees go to counter subsidized foreign competition.²⁹

Instead, most of the Ex-Im Bank’s loan and guarantee portfolio is geared toward providing credit for overseas projects and purchases that the bank says could not receive private funding. However, 99 percent of capital-intensive projects in developed countries are already financed by private borrowers. The amount for developing countries is 89.7 percent. The Ex-Im Bank provides a mere 2 percent of the financing for projects in developing countries.³⁰

Those data do not provide good evidence that there is a failure in the credit markets. Private capital markets have been able to successfully provide virtually all of the funding for overseas projects and acquisitions of U.S.

products. If the projects the Ex-Im Bank underwrites were not able to receive funding in private markets, it’s probably because those projects simply weren’t ones that investors found worthwhile, or because the interest rates on those loans were higher than the companies were willing to accept. This is not an example of market failure—it is a testament to how well private capital markets work.

Conclusion: A Proposal to Eliminate the Corporate Welfare State

Any attempt to terminate business subsidy programs will require altering the incentives of legislators. Individual members of Congress lack the incentive to discipline themselves. If they were successful in saving taxpayer money by defunding a particular program, less abstemious members might be able to use that money to bolster the budget of a favored program. Also, member A knows that voting for a decrease in member B’s favored program might result in future reprisals. For those reasons, attempts to defund these programs one by one, or in small groups, during the annual appropriations process are not likely to yield results. An institutional problem of this sort requires an institutional solution.

One way out of this dilemma might be a corporate welfare reform commission (CWRC). General guidelines for a bill creating a CWRC could be as follows:

- The commission would not be composed of sitting members of Congress. It would be chosen by bipartisan agreement between the president and the leadership of both houses of Congress.
- The commission would convene for the purpose of proposing a list of corporate welfare programs that should be eliminated.
- The commission would address only spending programs, not tax preferences in the budget, and no corporate welfare spending programs should be considered “off the table.”
- The commission’s list of recommended program terminations would be voted on by both houses of Congress, with no amendments, within 60 days of the commission’s final report.

A commission structured along those lines would solve two main problems:

- The special interests dilemma: Because the members of the commission would not be incumbent lawmakers, they would be far more insulated from political concerns. While there would still be special interest pressure on the members of the commission, that pressure is likely to be much less effective at achieving the goals of the lobbyists.
- The collective choice dilemma: Because every program would be terminated by an up-or-down vote on an unamendable bill, there would be no vote trading on the specifics of the bill as there is during the normal appropriations process. The commission would have the ability to cast a wide net and create a list of programs that would hit a larger number of special interest constituencies than any one member of, or group within, Congress would propose. To further enhance the possibility of success, the commission could present to Congress its list of program terminations in a nonelection year.

The CWRC has an ancestor in the Base

Realignment and Closure Commission. The BRAC was created after the collapse of the Soviet Union, at a time when there was a general understanding that even though the military base structure then “made little sense on the whole, Congress could not bring itself to close specific bases.”³¹ During the 10 years before BRAC, “Congress prohibited studies of whether bases should be closed, required an environmental impact statement for any proposed closure, and attached riders to appropriations bills to bar the spending of funds to close particular bases.”³² Although many members of Congress liked the idea of closing military bases in the abstract, they were rarely willing to vote for a bill that would close a base in their district. As in the case of corporate welfare programs, Congress soon found itself unable, because of institutional and political biases, to downsize the defense budget at a time when doing so was often cited by members of both parties as an important goal.

A final reason to convene such a commission is that sunlight is the best disinfectant. A corporate welfare commission would finally allow scrutiny of those programs in a coordinated public proceeding. That’s not something that happens regularly in Congress today, and it’s long past time for sustained public attention to a debate on the merits of the federal government’s role in subsidizing private companies.

Appendix 1: Descriptions of Corporate Welfare Programs

This appendix provides descriptions of the programs this report categorizes as corporate welfare. Unless otherwise indicated, the information used in the descriptions comes from the *Budget of the United States Government* or from the official publications of the agencies, bureaus, and programs.

Department of Agriculture

Agricultural Marketing Service. The Agricultural Marketing Service collects data on agricultural

A commission could convene for the purpose of proposing a list of subsidy programs that should be eliminated.

commodity markets and, through its *Market News* reports, makes that information available to agricultural producers, processors, distributors, and others to assist them in the marketing and distribution of farm products. AMS also funds the promotion of agricultural products such as cotton, various fruits and vegetables, eggs, and beef, among many others.

Applied Agricultural Research and Development. The Department of Agriculture, like most federal agencies, funds basic research, applied research, and developmental research. The main research arms of the USDA—the Agricultural Research Service (ARS) and the Cooperative State Research, Education, and Extension Service (CSREES)—fund all three sorts of research. The ARS conducts research focused on increasing the productivity and quality of agricultural land and products, which serves to enhance the profitability of farms. The ARS funds a “technology transfer” program that seeks, according to the program’s own website, to “stimulate new business and economic development.” The CSREES is designed to assist farmers in making use of new technologies and providing one-on-one counseling to help producers develop and implement changes to their business. It also funds agricultural research projects at the nation’s land-grant universities and other state institutions. Only the applied and developmental research elements of each of those programs—in other words, the portions that are most closely tied to the creation of new products and technologies—are included in Table 1.³³

Farm Security and Rural Investment Programs. These programs, which include the Environmental Quality Incentives Program, pay farmers to use environmentally friendly production techniques. In many cases, that results in underwriting general operating expenses of businesses, such as hog farms, that previously paid the cost of waste cleanup on their own. In addition, the Agricultural Management Assistance program, also authorized by the Farm Security and Rural Investment Act of 2002, serves as a source of financial risk mitigation for farms that don’t take part in the federally subsidized federal crop insurance program.

Farm Service Agency: Agricultural Credit Insurance Fund. The Agricultural Credit Insurance Fund provides direct loans and loan guarantees for farmers seeking credit to improve or purchase a farm or to offset the cost of operating a farm.

Farm Service Agency: Conservation Reserve Program. The Conservation Reserve Program, in a sense, pays farmers not to farm. The federal government essentially rents land from the farmers in exchange for an agreement by the farmer to plant a protective cover crop on those parcels of land that have been enrolled in the CRP. The stated rationale for this program is to help farmers control soil erosion and to reduce production of surplus commodities. However, if a farmer’s own planting decisions cause soil erosion, the resale value of the land will likely be reduced. Thus, the CRP program subsidizes farmers for costs they should bear on their own or—considering the program is voluntary—might have borne on their own in the absence of the program.

Farm Service Agency: Crop and Farm Support (Commodity Credit Corporation Fund). See Case Study no. 1. In addition to handing out crop price support payments and the numerous programs listed separately in this report, the CCC also maintains various programs that subsidize farmers, such as helping finance transportation and storage of farm products. All of the activities of the CCC prop up the farm industry by inflating prices, sustaining the income of farmers, or subsidizing the costs of running a farm.

Farm Service Agency: Export Loans Program. The Export Loans Program promotes the export of U.S. agricultural commodities by providing guaranteed and subsidized loans to the purchasers of those exports, thereby subsidizing the demand for American farm products.

Farm Service Agency: Market Access Program. The Department of Agriculture’s Market Access Program provides the trade associations of private agricultural firms with taxpayer dollars to help offset their foreign advertising costs. At least 20 percent of this spending goes to promote brand-name products overseas.³⁴

Farm Service Agency: Tobacco Trust Fund Quota Buyout. The federal government used to limit, via federally set quota, the amount of tobacco each farmer could produce—which in practice meant limiting the number of tobacco farmers in America to only those who were given a federally issued license, called an allotment, to grow tobacco. In 2004 Congress terminated this arrangement but at the same time approved a \$9.6 billion buyout of allotment rights over 10 years.³⁵ Because an end to the quota system would decrease the value of tobacco farmland—which was inflated in the first place by a federal quota system that restricted the supply of tobacco—defenders of the buyout suggest it was a necessary form of compensation for those landowners who held allotments and should not be considered a “corporate welfare” program. A better case can be made, however, that the original quota system was an unwarranted windfall subsidy to tobacco growers and, thus, tobacco growers are not now entitled to compensation in the same way that someone from whom government had taken land through eminent domain is entitled to compensation. Therefore, the tobacco buyout is included on this list as a corporate subsidy since the plan passed by Congress simply shifts the cost of supporting tobacco farmers from consumers, who paid higher prices for tobacco as a result of the quota system, to taxpayers, who are now footing the bill for what is best viewed as the same sort of income-support transfer that many other crops also receive.

Foreign Agricultural Service: Subsidies for Foreign Purchase of Commodities (Public Law 480). P.L. 480 promotes the export of U.S. agricultural commodities by providing subsidized loans to purchasers of those goods in developing countries. The program also subsidizes U.S. freight carriers that carry those commodities overseas.

Foreign Agricultural Service: Market Access and Development Programs. The main function of these programs is to provide matching funds to U.S. firms and trade associations to pay for activities such as overseas market research and promotion of products. Other programs, such as the Export Enhancement Program, subsidize

the export of certain agricultural commodities, mainly wheat and other grains, through direct payments to U.S. exporters who compete with foreign companies in overseas markets.

Foreign Agricultural Service: Trade Adjustment Assistance. This program provides technical assistance and cash payments to farmers and fisherman who have experienced a decline in the price of their goods of at least 20 percent as a result of import competition.

Federal Crop Insurance Premium Subsidies. The Federal Crop Insurance program directly subsidizes the crop insurance premiums that are charged to farmers who hold such policies.³⁶

Rural Business-Cooperative Service: Biomass Commercialization Subsidies. This program subsidizes private research on bio-based energy products and assists businesses hoping to bring those products to market. It also supports feedstock development and production.

Rural Business-Cooperative Service: Rural Empowerment Zones and Commercial Grants/Cooperative Development Grants/Loan Subsidies. All of these programs use taxpayer money to help fund the creation and expansion of businesses in rural areas, mainly through direct grants and business loan subsidies.

Rural Community Advancement Program: Loan Subsidies/Rural Business Grants. The Rural Community Advancement Program subsidizes businesses primarily through loan subsidies. It also funds grants to businesses and local governments for explicit “economic development” purposes, including paying for technical and training assistance for companies based in rural areas.

Rural Utilities Service: Electrification and Telecommunications Subsidies. The Rural Utilities Service was established in 1994 to administer programs of the former Rural Electrification Administration and the Rural Development Administration. RUS provides subsidized loans to electric and telephone utility providers in rural areas.

Department of Commerce

Economic Development Administration. The Economic Development Administration seeks

to improve distressed economies by providing grants and loans to state and local governments, nonprofit organizations, and private businesses in areas with high and persistent unemployment. EDA's activities include technical assistance grants, which provide technology transfer assistance to private firms, and development grants, which fund the construction and improvement of infrastructure for the development and expansion of private industrial parks and ports. EDA also funds the Trade Adjustment Assistance program, which gives grants to private firms and industries that are deemed to have been adversely affected by increased imports.

International Trade Administration. The International Trade Administration's role is to "develop the export potential of U.S. firms" by conducting export promotion programs, working with firms to develop market strategies for overseas markets, and protecting uncompetitive industries by enforcing "antidumping" regulations.

Minority Business Development Agency. This agency promotes the development of minority-owned businesses through the provision of management assistance and technical assistance for companies trying to gain access to capital. The MBDA's activities often focus on helping minority-owned businesses chase government grants and contracts.

National Institute of Standards and Technology: Advanced Technology Program. See Case Study no. 2.

National Institute of Standards and Technology: Manufacturing Extension Partnership. This program provides grants to fund the creation and maintenance of dozens of "extension centers" to assist small and medium-sized manufacturing firms in making use of modern manufacturing and production technologies.

National Oceanic and Atmospheric Administration: National Marine Fisheries Service/Fishery Promotion and Development Subsidies. The American Fisheries Promotion Act allows the federal government to give grants directly to fisheries to increase their productivity. This activity is financed through the non-weather-related portion of the National Oceanic and Atmospheric

Administration budget and includes fishery and export promotion, as well as the industry assistance programs of the National Marine Fisheries Service.

Department of Defense

Applied Research and Development Funding. The Pentagon budget includes funding for companies and industry consortiums to undertake cost-shared research projects to develop technologies that have a "dual-purpose" application (i.e., that can be used by the U.S. military and sold commercially). These items include endeavors funded by the Defense Advanced Research Projects Agency and a portion of the multi-agency Small Business Innovative Research program. One of the stated goals of many of these programs is the "commercialization" of the technology developed with taxpayer money.

Department of Energy

Energy Supply Subsidies. The energy supply programs aim to develop and deploy new energy technologies as well as improve on existing technologies. These activities include applied R&D and demonstration ventures in partnership with private-sector firms. Research areas include solar and renewable energy, nuclear energy, and fusion energy.

Fossil Energy Research and Development. The fossil energy R&D program is designed to expand the technology base for private industry engaged in developing new products and processes. The program supports applied R&D and cooperative R&D ventures with private-sector firms. It also supports company-specific technology development and "demonstration" activities. Research areas include clean fuels; clean, efficient power systems; oil technology; natural gas; and fuel cells.

Coal Research Initiative. This program includes the FutureGen program that subsidizes private-sector research on a marketable fossil-fuel-powered electricity and hydrogen power plant. It also includes the Clean Coal Power Initiative that funds joint public-private demonstration projects designed to assist private industry in developing coal that burns in a more environmentally friendly way.

Hydrogen Fuel Initiative. The Hydrogen Fuel Initiative directly funds private-sector research by the major U.S. automakers to develop hydrogen production, storage, and fuel cell technologies. The stated goal is to create commercially viable vehicles that run on hydrogen by 2020.

FreedomCAR/21st Century Truck Partnership. This program subsidizes research by major automakers for developing their own versions of hybrid, plug-in hybrid, and fuel cell vehicles. The subsidies also fund private R&D of light-weight materials, electronic power control, and electric drive motors.

Department of Housing and Urban Development

Federal Housing Administration: Mortgage Insurance Subsidies. The Federal Housing Administration subsidizes the mortgage banking industry by providing low-rate mortgage insurance to low- and moderate-income homebuyers. This ensures that banks will recoup the cost of bad loans they issue at taxpayer expense. Not surprisingly, one of the FHA's staunchest defenders is the Mortgage Bankers Association. These indirect subsidies to the mortgage banking industry are particularly unwarranted given that there is a healthy and expanding private mortgage insurance industry that can and would carry the load in the FHA's absence.

Economic Development Initiative Grants. This program provides funds to local governments to undertake a variety of economic development activities—such as assistance to private construction projects—many of which are financed by federal Section 108 loans. A recent example of where EDI money often goes can be found on the HUD website, which touts the \$660,000 that helped fund the construction of a supermarket in Fort Worth, Texas.³⁷

Community Development Block Grants. This multi-billion-dollar program funds, among other things, grants that go directly to benefit business mainly through funding for state and local economic development projects. Only the portion of the CDBG program that was earmarked exclusively for economic development is included in Table 1.

Community Development Loans and Credit Subsidies (Section 108). This program provides loan guarantees and subsidies to economic development projects funded by the Community Development Block Grant program.

Department of State

Foreign Military Financing Program. Estimated to be the largest single subsidy program for the U.S. military weapons industry, the Foreign Military Financing Program supports grants to more than two dozen countries for the explicit purpose of purchasing military equipment manufactured by U.S. firms.³⁸

Department of Transportation

Federal Aviation Administration: Commercial Space Transportation. This program was created to encourage private space launches and development of launch vehicles with taxpayer money. As the success of the Ansari X-Prize makes evident, however, venture capital markets are quite capable of handling this type of development funding.

Federal Aviation Administration: Essential Air Service/Payments to Air Carriers. These programs subsidize air service for small and rural communities by providing direct subsidies to U.S. airlines—primarily commuter carriers—that serve those areas. These programs are funded occasionally by FAA general revenue, but most of the revenue comes from overflight fees paid by foreign airlines. Although U.S. taxpayers don't typically bear the cost of this program, it still transfers money to U.S. air carriers at the expense of other corporations.

Federal Aviation Administration: Grants-in-Aid for Airports. The Grants-in-Aid for Airports program provides direct grants to the nation's airports to fund airport planning and development activities. Those activities include capacity expansion and terminal improvements, both of which directly benefit airline companies.

Federal Railroad Administration: Amtrak Subsidies. The National Railroad Passenger Corporation, known as Amtrak, was created in 1970. At its inception, the goal was to use taxpayer funds

to finance long-distance train service in exchange for allowing private companies to discontinue those money-losing routes. Amtrak was meant to exist for only a brief period of time—just long enough for those routes to achieve profitability and Amtrak to become self-supporting. Yet Amtrak continues to lose money, and Congress continues to bail it out. While still a quasi-governmental agency, it is “operated and managed as a for-profit corporation.”³⁹ Any company that pays Amtrak to haul freight also receives the benefit of subsidized rates through Amtrak’s “Express” program.

Federal Railroad Administration: Next-Generation High Speed Rail. This program gives money to private companies to develop upgraded steel-wheel-on-rail and magnetically levitated rail vehicles.

Federal Railroad Administration: Railroad Research and Development. This program finances research on improved rail technology. These technological advances are often accomplished through public-private partnerships geared toward product improvement. This program assists the DOT’s “technology transfer” to private companies for the purpose of advancing improved manufacturing processes and the development of new products for the international marketplace.

Maritime Administration: Guaranteed Loan Program. This program provides guaranteed loans for purchasers of ships from the U.S. shipbuilding industry and for modernizing U.S. shipyards.

Maritime Administration: Ocean Freight Differential Subsidies. When the United States ships food aid overseas, 75 percent of it must by law be transported on U.S.-flag carriers, which tend to be, as a result of restrictions on competition, more expensive than foreign carriers. This program funds the difference in price and is one of the main “cargo preference programs” in the federal budget.

Maritime Administration: Maritime Security Program. The Maritime Security Program provides direct payments to U.S.-flag ship operators engaged in international trade on condition that a certain percentage of their fleet remain in service and that the Defense Department can call on them in wartime to

provide sealift support. These direct subsidies have the effect of propping up U.S.-flag ship operators by offsetting a portion of their operating costs.

Independent Agencies and Others

Agency for International Development Economic Development Programs. Some activities of the Agency for International Development provide cash assistance to developing countries for the explicit purpose of economic development. Yet these programs also have the effect of subsidizing U.S. firms, particularly in cases in which the overseas transactions would not have occurred without the subsidy. In fact, AID sometimes boasts that the principal beneficiaries of its assistance programs are U.S. firms that receive the vast majority of the grants and contracts issued by AID and the foreign governments it assists.

Appalachian Regional Commission. The Appalachian Regional Commission was established in the 1960s to help reduce poverty in the 13 states of the mostly rural Appalachian region by promoting private investment and “economic development” efforts, most of which amount to subsidizing business endeavors. Much of ARC’s budget goes to subsidize various private construction projects, ranging from ski resorts to football stadiums.

Bureau of Reclamation. The Bureau of Reclamation funds the construction, operation, and maintenance of various water projects that provide power, irrigation, and flood control in the western United States. Since its establishment in 1902, the bureau’s primary stated goal has been to provide a subsidized water supply for the agricultural industry in the western United States.

Corporation for Public Broadcasting. The CPB gives grants to state and local public television and radio stations that, though they are nonprofits, function as autonomous corporations. The programs that appear on those stations (such as *Sesame Street*) generate millions of dollars in merchandise sales revenue each year for production firms and toy companies that benefit from the federally supported broadcast of these shows. The broad-

cast stations that receive this money are usually able to fund much of their operation by subscriptions and donations.

Export-Import Bank. See Case Study no. 3.

International Trade Commission. This agency assists in the administration of antidumping tariffs and trade barriers. The budgetary cost of enforcing these sorts of corporate protections should be considered an indirect taxpayer subsidy to business.

National Institutes of Health: Applied Biomedical Research and Clinical Development. Basic medical research is only part of what the National Institutes of Health funds. Some of the NIH budget supports applied biomedical research as well as preclinical and clinical development of specific pharmaceuticals—activities that provide a valuable benefit to the pharmaceutical industry.

National Aeronautics and Space Administration: Aeronautical Technology and Commercialization Activities. This account funds R&D activities (often in direct partnership with specific companies) that benefit the commercial airline industry.

Overseas Private Investment Corporation. The Overseas Private Investment Corporation provides direct loans, guaranteed loans, and political risk insurance to U.S. companies that invest in developing countries. OPIC's activities often support the foreign operations of Fortune 500 corporations, such as General Electric and Citibank. In fact, Citibank is consistently the top beneficiary of OPIC programs.⁴⁰

Small Business Administration. The Small Business Administration provides direct loans and loan guarantees to small businesses, as well as administrative counseling and disaster relief. SBA's subsidized financing is often targeted at small businesses owned by minorities or located in economically distressed areas

Trade and Development Agency. The Trade and Development Agency provides grants to fund feasibility studies and other planning services for major economic development projects in developing countries. Those grants go largely to governments and private investors in developing countries who then purchase

goods and services from U.S. businesses. TDA projects thereby subsidize new business opportunities for large U.S. corporations, such as Bechtel and General Electric.

Appendix 2: Tax Preferences and Other Types of Indirect Subsidies

Tax Preferences

Tax preferences are described by the U.S. Office of Management and Budget as provisions in the revenue code that award specific types of corporations or individuals “a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of liability.”⁴¹ Many of those provisions benefit only a small number of companies or tax filers. Yet not every deduction in the tax code can be considered a form of corporate welfare. Any company may avail itself of certain tax preferences, such as the tax deduction for donations to charities, for instance.

It's the tax preferences that go to particular companies or particular industries that are especially bad economic policy and should be considered a form of corporate welfare. The best example is the tax credit that awarded \$40 billion in tax liability offsets to producers of ethanol and alternative fuels.⁴² Many of those tax credits go to only a few companies. One company, Archer Daniels Midland, the multi-billion-dollar agribusiness based in Decatur, Illinois, produces 17 percent of the ethanol used in the United States and receives a large tax credit.⁴³

Targeted tax preferences do complicate the tax code and create market distortions. As a result, they should be terminated in the context of fundamental tax reform that strives to lower taxes and make the tax code simpler and neutral. One way of doing that would be to replace the current tax system with a consumption-based tax, such as the flat tax or a national retail sales tax, that doesn't make distinctions between politically favored taxpayers and others.

For the purposes of this report, tax preferences have not been included in the list of corporate welfare programs in Table 1 because they do not require an actual net expenditure of money by the government.

Trade Barriers

Another type of preference that the federal government provides to certain businesses and industries is the imposition of tariffs and barriers to trade with foreign countries. There are currently tariffs levied on thousands of goods, ranging from fruit juice and leather products to pressed glass and costume jewelry.⁴⁴ Other barriers to trade include import quotas on certain farm commodities. All such barriers have the effect of protecting domestic industries from foreign competition. They also have the effect of restricting the free flow of goods in the economy, leading to decreased supply, forgone economic production, and higher prices for consumers. The cost to consumers of the most significant trade barriers was recently estimated at \$3.7 billion a year.⁴⁵

The costs of these trade barriers are not included in Table 1 because they rarely translate into a cost associated with a line item in the federal budget. Note, however, that the federal agencies that administer trade barriers, such as the International Trade Commission, do result in a direct budgetary cost and are included in Table 1.

Government-Sponsored Enterprises

During the 20th century the federal government chartered corporations for certain public policy purposes. The main government-sponsored enterprises (GSEs) are the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal Home Loan Banks (sometimes called Flubbies), and the Farm Credit System (which consists of the Agricultural Credit Bank, the Federal Agricultural Mortgage Corporation, and the Farm Credit Banks). Those institutions were supposed to create markets for cut-rate loans to poor families and farmers, which, it was

argued, would not exist in the absence of government action.

The GSE loan portfolios represent a very large share of the lending market in their respective fields. In fact, Fannie Mae and Freddie Mac, two of the biggest GSEs, account for a combined 48 percent of the overall conventional mortgage market and 39 percent of the total residential mortgage market.⁴⁶

Technically, GSEs are publicly traded corporations—they have shareholders and boards of directors. However, those companies receive many benefits that actually make them more like government-protected bureaucracies. Fannie Mae and Freddie Mac, for instance, are exempt from most of the regulations that bind truly private mortgage lenders. In addition, they have a contingency line of credit in the amount of \$2.25 billion that can be drawn from the federal Treasury. There is also an implicit understanding that the federal government will bail out the GSEs if they ever collapse under the weight of their rapidly expanding debt. That has created unfair competition with private lenders. A recent Federal Reserve Bank study estimated that these implicit subsidies equal between \$122 billion and \$182 billion.⁴⁷

There is no item in the budget that corresponds to that estimated cost, so it is not included in this report's total subsidy cost estimate. However, it is obvious that the implicit federal subsidies to those companies distort the lending market and represent an advantage that other lenders do not receive.

Notes

1 Bureau of Economic Analysis data available at www.bea.gov.

2. The estimates in this report are based on the definitions of “basic” and “applied” research expenditures devised by the Association for the Advancement of Science. Their numerous publications on R&D can be found at <http://www.aaas.org/spp/rd/>. The Congressional Budget Office makes a distinction similar to the one made in this paper in “Federal Financial Support of Business,” July 1995, <http://www.cbo.gov/showdoc.cfm?index=15&sequence=0>.

3. See F. A. Hayek, "The Use of Knowledge in Society," in *The Libertarian Reader*, ed. Davis Boaz (New York: Free Press, 1997), pp. 215–24.
4. Veronique De Rugy, "The SBA's Justification IOU," *Regulation*, Spring 2007, pp. 26–34.
5. A brief treatment of this theory is found in Mancur Olson, *The Rise and Decline of Nations* (New Haven, CT: Yale University Press, 1982), chap. 2.
6. For a discussion of the constitutional limitations on federal spending, see Roger Pilon, "On the Folly and Illegitimacy of Industrial Policy," *Stanford Law and Policy Review* 5, no. 1 (Fall 1993): 103–18.
7. Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2008: Historical Tables* (Washington: Government Printing Office, 2007), Table 3.2, p. 60. The estimate is for Function 351, "Farm income stabilization."
8. U.S. Department of Agriculture, Farm Service Agency, "Fact Sheet: Production Flexibility Contracts, Marketing Loss Payments and Marketing Assistance Loans," February 1999, <http://www.fsa.usda.gov/pas/publications/facts/html/Prodflex'99.htm>.
9. Author's calculations based on data in *ibid.*
10. Jean Yavis Jones, ed., "A New Farm Bill: Comparing the 2002 Law with Previous Law and House and Senate Bills," Congressional Research Service, January 21, 2003, p. CRS-10.
11. Author's calculations based on data from Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2008: Historical Tables*, Table 3.2, pp. 59–60.
12. Data from the U.S. Department of Agriculture, Economic Research Service, available at <http://www.ers.usda.gov/Data/FarmandRelatedEmployment/>. This statistic is for 2002, the most recent available.
13. Council of Economic Advisers, *Economic Report of the President* (Washington: Government Printing Office, February 2002), Table B-100, p. 435. This data series detailing the percentage of Americans living on farms was discontinued in 1992. However, there is no reason to believe that the percentage of citizens living on farms has increased.
14. For a discussion of these issues, see David Orden, Robert Paarlberg, and Terry Roe, *Policy Reform in American Agriculture: Analysis and Prognosis* (Chicago: University of Chicago Press, 1999); and Yair Mundlak, *Agriculture and Economic Growth: Theory and Measurement* (Cambridge, MA: Harvard University Press, 2000).
15. Carol A. Jones, Hisham El-Osta, and Robert Green, *Economic Well-Being of Farm Households*, U.S. Department of Agriculture, Economic Research Service Economic Brief no. 7, March 2006, p. 2, <http://www.ers.usda.gov/publications/EB7/EB7.pdf>.
16. Orden, Paarlberg, and Roe, p. 33.
17. U.S. Department of Agriculture, Economic Research Service, "Farm Income and Costs: Farm Household Well-Being" October 10, 2004, http://www.ers.usda.gov/briefing/FarmIncome/fbsas-set_txt.htm. This analysis is based on annual Agricultural Resource Management Survey conducted by the Economic Research Service.
18. Estimate based on data from the U.S. Department of Agriculture and compiled by the Environmental Working Group in its Farm Subsidy Database, <http://www.ewg.org/farm/>.
19. See Daniel T. Griswold, Stephen Slivinski, and Christopher Preble, "Ripe for Reform: Six Good Reasons to Reduce U.S. Farm Subsidies and Trade Barriers," Cato Institute Trade Policy Analysis no. 30, September 14, 2005.
20. Robin M. Nazzaro, director of natural resources and environment, Government Accountability Office, "Advanced Technology Program: Inherent Factors in Selection Process Are Likely to Limit Identification of Similar Research," Testimony before the Subcommittee on Federal Financial Management, Government Information, and International Security of the Senate Committee on Homeland Security and Government Affairs, GAO-05-759T, May 2005, p. 1.
21. General Accounting Office, "Measuring Performance: The Advanced Technology Program and Private-Sector Funding," GAO/RECD-96-47, January 1996, p. 3.
22. Nazzaro, pp. 4, 7–9.
23. Many companies receive more than is listed in the table since they are also members of multiple consortiums and joint ventures that receive federal money to divvy up among participants. The numbers used in this study are a representative sample of the total money received.
24. Quoted in Scott J. Wallsten, "The R&D Boondoggle," *Regulation* 23, no. 4 (2000): 13.
25. This result is arrived at by regression analysis outlined in *ibid.*, pp. 14–15.
26. Export-Import Bank of the United States,

- 2006 Annual Report (Washington: Export-Import Bank, 2007), p. 1, <http://www.exim.gov/about/reports/ar/ar2006/index.html>.
27. Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2008*, Appendix, p. 1064.
28. Tim Carney, *The Big Ripoff: How Big Business and Big Government Steal Your Money* (New York: Wiley, 2006), pp. 75–90.
29. Export-Import Bank, *Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States* (Washington: Export-Import Bank, 2006), Appendix B, <http://www.exim.gov/about/reports/compet/documents/2005CompetitivenessReport.pdf>.
30. *Ibid.*, chap. 4, figure 11
31. Kenneth R. Mayer, “The Limits of Delegation: The Rise and Fall of BRAC,” *Regulation* 22, no. 3 (1999): 34.
32. *Ibid.*, p. 32.
33. Supporters of agricultural research programs suggest that the applied and developmental aspects of research are too costly and risky for farmers to undertake on their own, leading to an underinvestment in the sort of research that could increase agricultural productivity. An important part of this perceived market failure is the inability of farmers to—even if they had the wherewithal to fund this research—capture the economic gains from a new technology that could be copied by competitors. For decades, the Economic Research Service of the USDA—long a proponent of the market failure argument—has noted that public funding has outpaced private funding for agricultural research since the 1940s. However, those trends have shifted recently. As the ERS noted in 2006, “The public sector was the primary investor in agricultural research prior to the 1980s, but now the private sector funds the development of many new agricultural technologies.” Today, private-sector spending on agricultural research is over 30 percent higher than public support for such research. The ERS surmises that expansions in intellectual property protections that were granted to farm researchers by federal statute in the 1970s and early 1980s have contributed to mitigating the market failure and driven the increase in private-sector agricultural research. If those trends continue, it will become increasingly difficult for supporters of agricultural research to justify taxpayer funding of applied and developmental research in this way. For a discussion of these trends, see Keith Wiebe and Noel Gollehon, eds., “Agricultural Resources and Environmental Indicators, 2006,” *Economic Information Bulletin* (Economic Research Service) no. 16 (July 2006): 59–65, http://www.ers.usda.gov/publications/arei/eib16/eib16_3-2.pdf.
34. Congressional Budget Office, *Budget Options* (Washington: CBO, February 2007), p. 350.
35. For a description of how the tobacco buyout program works, see A. Blake Brown, “A Summary of the Tobacco Buyout,” North Carolina State University, Department of Agricultural and Resource Economics, November 14, 2004, http://ipm.ncsu.edu/Production_Guides/Flue-Cured/2005/chptr1.pdf.
36. For a further explanation of FCIC programs and the problems they create, see Jerry R. Skees “The Bad Harvest,” *Regulation* (Spring 2001): 16–21; and Robert W. Klein and Gregory Krohm, “A New Season?” *Regulation* (Winter 2006–2007): 26–33.
37. “Fort Worth Grocery Store a Welcome Addition,” January 1, 2007, <http://www.hud.gov/local/tx/community/2002-08-23.cfm>.
38. For a more detailed study of this program, see William D. Hartung, “Corporate Welfare for Weapons Makers: The Hidden Costs of Spending on Defense and Foreign Aid,” *Cato Institute Policy Analysis* no. 350, August 12, 1999.
39. Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2008*, Appendix, p. 821.
40. Overseas Private Investment Corporation, *2005 Annual Report* (Washington: OPIC, 2006); and Ian Vásquez and John Welborn, “Reauthorize or Retire the Overseas Private Investment Corporation?” *Cato Institute Foreign Policy Briefing* no. 78, September 15, 2003.
41. See “Tax Expenditures,” in Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2008: Analytical Perspectives*, p. 285.
42. *Ibid.*, Table 5-2, p. 66.
43. Brent D. Yacobucci, “Fuel Ethanol: Background and Public Policy Issues,” *Congressional Research Service*, March 3, 2006, p. 4.
44. See U.S. International Trade Commission, *Harmonized Tariff Schedule of the United States* (Washington: Government Printing Office, 2007).
45. U.S. International Trade Commission, *The Economic Effects of Significant U.S. Import Restrictions: Fifth Update 2007* (Washington: Government Printing Office, February 2007), p. xvii.
46. Lawrence White, “Fannie Mae, Freddie Mac, and Housing Finance: Why True Privatization Is Good

Public Policy,” Cato Institute Policy Analysis no. 528, October 7, 2004, p. 4.

47. Wayne Passmore, “The GSE Implicit Subsidy

and the Value of Government Ambiguity,” Finance and Economics Discussion Series, Federal Reserve Board, May 2005, p. 3, <http://www.federalreserve.gov/Pubs/feds/2005/200505/200505pap.pdf>.

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