Special-Interest Spending

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Introduction

Civics textbooks teach that political leaders have the broad public interest in mind when they consider policy issues. Unfortunately, that optimistic view does not square with the actual results of federal policymaking much of the time. Many federal programs deliver subsidies to particular groups of individuals and businesses while harming taxpayers and damaging the overall economy.

This essay explores that perverse result, and it illustrates the problem with a discussion of "corporate welfare" and "earmarks." Corporate welfare refers to subsidies that the government provides to businesses. Earmarks generally refer to items slipped into legislation by individual lawmakers to benefit particular activities in their home states. Corporate welfare and earmarks illustrate the broader problem of special interest spending in the massive federal budget. With more than 1,800 different subsidy programs, the federal budget has become a giant favor factory for organized pressure groups at the expense of average citizens.

Number of Subsidy Programs

The federal government has greatly expanded in size in recent years, and it now spends more than $3.5 trillion annually. The government has also increased the *scope* of its activities, as it is involved in many areas that used to be left to state and local governments, businesses, charities, and individuals. Policymakers have encouraged a growing part of American society to climb aboard the federal gravy train.

One way to measure rising federal intervention is to examine the programs listed in the *Catalog of Federal Domestic Assistance*.[1] The 2,205-page *CFDA* is an official listing of all federal aid or subsidy programs for state and local governments, individuals, businesses, and nonprofit groups. These subsidies include grants, loans, insurance, scholarships, and other types of cash and noncash benefits.

The CFDA was launched in the 1960s after members of Congress realized that they needed a guide to help their constituents access all the new Great Society handouts. By 1970, there were 1,019 federal subsidy programs, as shown in Figure 1.[2] The number of programs grew in the late 1970s but was cut back in the early 1980s under President Reagan.

The number of subsidies started expanding again in the late 1980s but leveled out in the late 1990s as Congress briefly restrained the budget. Alas, all restraint vanished this decade, and the number of subsidy programs has exploded 27 percent with the passing of expansionary laws in agriculture, homeland security, transportation, and other areas.

The *CFDA* does not provide a perfect measure of the number of subsidy programs, but data from other sources confirm the general trends shown in Figure 1.[3] The bottom line is that more Americans than ever are relying on federal handouts, which is a sad development for a

country founded on individualism and limited government.

The expansion in subsidies violates federalism—the constitutional principle that the federal government ought not to encroach on properly state, local, and private activities. The problem is illustrated in Table 1, which shows a sampling of 10 subsidy programs added to the *CFDA* since 2000. The activities funded by some of these programs may have merit, but none of them are areas that the federal government ought to be involved in.

Aside from violating the spirit of the Constitution, there are many other problems with subsidy programs. Most obviously, they involve involuntarily transferring wealth from those people who earned it to other people who happen to be successful at lobbying Congress. In addition, subsidy programs generate large amounts of unproductive bureaucracy. Each program creates a paperwork burden related to the often complex rules on eligibility, funding formulas, and reporting requirements.[4] Furthermore, each program spawns fraud and abuse from people claiming unjustified benefits, and each program spurs the creation of lobbying organizations that push for an expansion in benefits.

Can Americans free themselves from the addictive drug of subsidies? One hope is that concerned citizens will use new Internet tools to fight back against the federal subsidy empire. Taxpayers can research who receives all the subsidies at websites such as www.usaspending.gov, and use the information to complain to their members of Congress. Of course, in an age of massive federal deficits, members should be proactively combing through the list of 1,800 subsidy programs themselves and terminating hundreds of lower-priority activities.

Why Special Interests Dominate

Why do special interests regularly triumph over the broad public interest in a democracy? One reason is that the recipients of subsidies have a strong incentive to build organized groups to lobby Congress to expand their benefits. These groups set up camp near Capitol Hill to advocate their issues, and many policymakers become convinced of the merits of special interest causes after hearing about them year after year.

At the same time, average citizens do not have a strong incentive to battle against particular subsidies because each program costs just a small part of their total tax bill. Besides, when average citizens do speak out against particular programs, they are outgunned by the paid professionals who defend each program. These professionals are experts at the complex features of programs, and they are skilled at generating media support for their causes. One technique they use is to cloak the private interests of subsidy recipients in public interest clothing—for example, they often proclaim that increased funding is essentially to the nation's well-being.

Another reason it is hard for average citizens to challenge special interest spending is that lobby groups, Congress, and federal agencies rarely admit that any program is a failure. The people in these organizations never admit failure because they become vested in the continued funding of programs since their careers, pride, and reputations are on the line. They battle against any cuts to programs at a personal and emotional level.

These factors explain why programs are difficult to cut. But how do subsidies and dubious programs get enacted in the first place? Table 2 shows how Congress can pass special interest legislation in which the costs to society outweigh the benefits. It shows a hypothetical project that creates benefits of $40 and costs taxpayers $50, and is thus a loser for the nation. Nonetheless, the project gains a majority vote, assuming that legislators vote in the narrow interests of their districts. The key to the program's political success is that its benefits are more geographically concentrated that its costs.

The pro-spending bias of congressional voting is strengthened by the complex web of vote trading, or logrolling, that often occurs. Table 3 shows that because of logrolling, projects that are net losers to society can pass even if they do not have majority support. Because

projects A and B would fail with stand-alone votes, Cantwell, Cochran, and Collins enter an agreement for mutual support of the two projects. That is, they logroll. The result is that the two projects get approved, even though each imposes net costs on society and benefits only a minority of voters.

The popularity of logrolling means that programs that make no economic sense and have only minimal public support get enacted all the time. Former Rep. Joe Scarborough of Florida has described the logrolling that led to the passage of the bloated 2002 farm bill.[5] Dairy subsidies had the support of members from Maine, Pennsylvania, and Vermont. Peanut subsidies had the support of members from Virginia, Alabama, and Georgia. Sugar subsidies had support from the Florida delegation. The logrolling continued for cotton, wheat, wool, mohair, and other products. Scarborough concludes: "Standing alone, not one of these corporate welfare measures could survive the bright light of public scrutiny."[6]

It is possible for the president and congressional leaders to counter these pro-spending biases by the use party discipline. They can ensure that members stand together in support of budget restraint, which occurred for a few years in the mid-1990s. But in most years, an "every man for himself" ethos permeates Congress, and members have free rein to grab all the money they can for their narrow causes.

Numerous dynamics strengthen the logrolling system. Members with safe seats often raise excess campaign money from special interest groups, which they then offer to other members in return for their support on bills.[7] Also, committee chairpersons often buy votes in support of fiscally irresponsible bills by including funds for projects in the districts of committee members.

Conscientious members who raise objections to special interest spending favored by other members can get punished by committee chairpersons and party leaderships. As a result, most members go along with the system and succumb to the temptation to seek as much home-state spending as they can. They start convincing themselves that wasteful "Christmas tree" bills loaded with narrow giveaways are in the public interest if they are bipartisan. The longer the time members spend on Capitol Hill, the more they lose sight of the fact that every dollar they spend is a dollar confiscating from hard-working taxpayers who have a right to their earnings.

Corporate Welfare

One type of special interest spending is "corporate welfare," or subsidies to businesses.[8] Corporate welfare can be direct cash payments to businesses, such as aid to farmers, or it can be indirect business support, such as when the government performs research for particular industries. Corporate welfare can also take the form of regulations or barriers to trade that protect businesses from open competition.

There is a fundamental illogic in corporate welfare. If subsidies prop up companies that are failing, it makes no sense because such companies probably have products that consumers don't want. Those companies are a drag on the economy and should be allowed to fail. Alternately, if subsidies go to support companies that are profitable, it makes no sense because such companies do not need help from the taxpayers.

Here are some examples of federal corporate welfare programs.

- *Market Access Program*. This program hands out about $200 million annually to help pay for the marketing costs of certain farm products. Some of the recipients include the Brewers Association, the Pet Food Institute, Sunkist Growers, Welch's Food, and the Wine Institute.
- *Advanced Technology Program*. This program, which costs more than $100 million annually, gives grants to companies for technology research.
- *Foreign Military Financing*. U.S. taxpayers fund the purchases of weapons by foreign governments through this program, which costs more than $4 billion annually.
- *Amtrak*. The passenger rail agency receives more than $1 billion annually in subsidies. Amtrak should be privatized so that it can drop unprofitable routes and make users bear the full costs of the service.
- *Export-Import Bank*. This agency helps finance the foreign purchase of U.S. goods, and it has been involved in numerous scandals. For example, it backed the risky overseas ventures of Enron Corporation and it providing $243 million in loans to bogus Mexican companies, including drug cartels.[9]
- *Maritime Administration*. This $500 million agency provides subsidies to the commercial shipping and shipbuilding industries. The irony is that burdensome tax and regulatory policies helped push shipping-related industries offshore in the first place.
- *Energy Research*. The Department of Energy spends about $9 billion annually on civilian energy research and subsidies. Federal

energy research has a poor track record, and there is no reason why the energy industry shouldn't fund its own research, as other industries do.

- *Small Business Administration*. This $500 million agency provides subsidized loans and loan guarantees to small businesses. It has a poor record of selecting businesses to support, and its loans have high rates of delinquency.

As these examples illustrate, corporate welfare comes in many flavors. All in all, the federal government spends about $92 billion annually on corporate welfare, which means that Congress could provide every household in the nation with an annual tax cut of about $800 by ending it.[10] Aside from the taxpayer cost, corporate welfare creates at least five other types of damage:

1. Creates an Uneven Playing Field. By aiding some businesses, corporate welfare puts other businesses at a disadvantage, which distorts markets. That distortion causes resources to flow from higher-valued to lower-valued uses in the economy, which reduces the nation's output.

2. Duplicates Private Activities. Many federal programs duplicate activities that are routinely provided in private markets, such as insurance, loans, and marketing. If such commercial-oriented activities are useful, then private markets should be able to perform them without government help.

3. Harms Businesses and Consumers. Government support for some businesses damages other businesses and consumers. For example, federal import quotas on sugar push up U.S. sugar prices and hurt U.S. candy manufacturers.[11] Or consider ethanol subsidies. The federal government requires ethanol to be used in fuels, provides a tax credit for ethanol producers, and imposes a tariff on ethanol imports. The result is that ethanol production has soared, which has harmed consumers because food prices have risen as farmland has been converted to ethanol production.[12]

4. Picking Winners Is a Losing Game. Nobody knows where the economy is headed in the future, especially not politicians in Washington. Thus, when the government starts choosing industries and technologies to subsidize, it will likely bet on the wrong horses at taxpayer expense.[13] Note that businesses and venture capital firms make many investments that turn sour as well, but their losses are private and not foisted involuntarily on other people.

5. Fosters Corruption. Corporate welfare generates an unhealthy relationship between businesses and the government. The problem was starkly illustrated by the Ron Brown scandals of the 1990s. Brown was head of the Democratic National Committee when President Clinton named him Secretary of Commerce in 1993. Brown's tenure at Commerce was marred by scandals related to his use of the department's business promotion activities as a campaign fundraising tool for his party.

6. Weakens Private Sector. Corporate welfare draws talented people into wasteful subsidy activities, and away from more productive market-based pursuits. Furthermore, companies that receive subsidies often become weaker and less efficient, and they often take on riskier projects. Consider, for example, that Enron Corporation received more than $1 billion in federal loans for overseas projects in the 1990s. Many of those projects turned out to be duds, and the company might not have pursued them if it had not received federal aid.

Earmarks

One conspicuous type of special interest spending is "earmarking." Earmarks are generally provisions inserted into spending bills by legislators for specific projects in their home states. Earmarking, or "pork" spending, provides recipients with contracts, grants, loans, and other types of benefits. The more than 1,800 federal subsidy programs mentioned above present a wealth of earmarking opportunities for legislators. In recent years, some infamous earmarks have included $50 million for an indoor rainforest in Iowa and $223 million for "bridge to nowhere" in Alaska.

The number of federal earmarks jumped from fewer than 2,000 annually in the mid-1990s to almost 14,000 by 2005.[14] After 2005, various earmark scandals erupted and Congress switched to Democratic control, which slowed the pace of earmarking for a while. But earmarking is on the rise again. The fiscal 2008 omnibus appropriations bill was bloated with 11,610 earmarks, and appropriations bills for fiscal 2009 included 11,914 earmarks.[15]

Earmarked projects have generally not been subject to expert review or competitive bidding. Thus, if the government had $1 billion to spend on bioterrorism research, it might be earmarked for laboratories in the districts of important politicians, rather than labs chosen by a panel of scientists. Earmarking has soared in most areas of the budget, including defense, education, housing, scientific research, and transportation.

The main problem with earmarking is that most of the projects are properly the responsibility of state and local governments or the private sector, not the federal government. The rise in earmarks is one manifestation of the growing intrusion by Congress into state, local, and private affairs. Consider these earmarks from the fiscal 2008 omnibus appropriations bill:

- $1,648,850 for the Shedd Aquarium in Chicago, a private nonprofit business that has major corporate funding;
- $787,200 for "green design" changes at the Museum of Natural History in Minneapolis;
- $492,000 for the Rocky Flats Cold War Museum in Arvada, Colorado;
- $1,950,000 for a library and archives at the Charles B. Rangel Center for Public Service at the City College of New York;
- $2,400,000 for renovations to Haddad Riverfront Park in Charleston;
- $500,000 for upgrades to Barracks Row, a swank Capitol Hill neighborhood;

- $742,764 for fruit fly research, partly conducted in France;
- $188,000 for the Lobster Institute in Maine;
- $492,000 for fuel cell research for the Rolls-Royce Group of Canton, Ohio.

Projects 1 to 3 give taxpayer money to organizations that should be funding their own activities, either from admissions fees or charitable contributions. Interestingly, the Shedd Aquarium has spent hundreds of thousands of dollars on lobbyists to secure federal earmarks, and its chief executive earned a huge $600,000 salary in 2006. Similarly, the Rock and Roll Hall of Fame in Cleveland has received federal grants, even though there are thousands of wealthy rock stars who should be footing the bill.

Projects 4 to 6 are examples of items that state and local governments should fund locally. Unfortunately, state and local officials are increasingly asking Washington for handouts, and lobby groups such as Cassidy and Associates are helping them "mine" the federal budget for grants.

Projects 7 to 9 fund activities that ought to be left to the private sector. Industries should fund their own research, which is likely to be more cost effective than government efforts. Besides, successful research leads to higher profits for private businesses, and it makes no sense for taxpayers to foot the bill for private gains.

Defenders of earmarks argue that they are no big deal since they represent just a small share of overall federal spending. The problem is that earmarking has contributed to a general erosion of fiscal responsibility in Washington. Earmarks have exacerbated the parochial mindset of most members of Congress, who spend their time appeasing state and local interest groups rather than tackling issues of broad national concern. Many politicians complain about the soaring federal deficit, yet their own staff members spend most of their time trying to secure earmarks in spending bills.

The rise in earmarking has encouraged a general spendthrift attitude in Congress. Why should rank-and-file members restrain their spending appetites when their own leaders are often big-time pork barrel spenders? Sen. Tom Coburn (R-OK) is right that the problem with earmarks is "the hidden cost of perpetuating a culture of fiscal irresponsibility. When politicians fund pork projects they sacrifice the authority to seek cuts in any other program."[16] Similarly, Rep. Jeff Flake (R-AZ) concludes that "earmarking . . . has become the currency of corruption in Congress . . . earmarks are used as inducements to get members to sign on to large spending measures."[17]

Earmarking, corporate welfare, and other types of special interest spending should be abolished. Of course, Congress will not give up its spendthrift ways easily because most members enjoy spending money, especially on projects in their own districts. Reforms will only happen if voters get angry that their tax money is being wasted and they revolt against business as usual in Washington. They need to research subsidies using Internet tools, such as www.usaspending.gov, and complain to their members of Congress about the waste. Ultimately, reform will only come when voters start throwing the most fiscally irresponsible members out of office.

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[1] *Catalog of Federal Domestic Assistance* (Washington: Government Printing Office, 2008), www.cfda.gov. The *CFDA* was first published in 1965 and listed 263 programs. The second edition was 1967, and it listed 459 programs.

[2] Most subsidy programs that existed in 1970 were created in the 1960s. The Governmental Accountability Office, for example, found that the number of subsidy programs for state and local governments quintupled from 106 in 1960 to 530 by 1970.

[3] In particular, official data on the number of grant programs for state and local governments show similar trends as Figure 1.

[4] Chris Edwards, "Federal Aid to The States: Historical Cause of Government Growth and Bureaucracy," Cato Institute Policy Analysis no. 593, May 22, 2007.

[5] Joe Scarborough, *Rome Wasn't Burnt in a Day* (New York, HarperCollins, 2004), p. 163.

[6] Joe Scarborough, *Rome Wasn't Burnt in a Day* (New York, HarperCollins, 2004), p. 163.

[7] For a discussion, see Tom A. Coburn, M.D., *Breach of Trust: How Washington Turns Outsiders Into Insiders* (Nashville: WND Books, 2003), p. 98.

[8] For background on corporate welfare see Stephen Slivinski, "The Corporate Welfare State: How the Federal Government Subsidizes U.S. Businesses," Cato Institute Policy Analysis no. 592, May 14, 2007. And see Timothy Carney, *The Big Ripoff: How Big Business and Big Government Steal Your Money*. New York: John Wiley & Sons, 2006.

[9] Byron Harris, "Drugs Tied to $243m in Bogus Loans," WFAA-TV, December 27, 2007.

[10] Stephen Slivinski, "The Corporate Welfare State: How the Federal Government Subsidizes U.S. Businesses," Cato Institute Policy Analysis no. 592, May 14, 2007.

[11] For example, Kraft Foods moved its 600-worker LifeSavers factory from Michigan to Canada in 2002, where sugar is half the U.S. price.

[12] Donald Mitchell, "A Note on Rising Food Prices," World Bank Policy Research Working Paper no. 4682, July 2008.

[13] For background, see Chris Edwards, "Entrepreneurs Creating the New Economy," Joint Economic Committee, staff report, November 2000.

[14] For background on earmarks see Citizens against Government Waste at www.cagw.org and see Taxpayers for Common Sense at

www.taxpayer.net.

[15] Brian Riedl, “Omnibus Spending Bill: Huge Spending and 9,000 Earmarks Represent Business as Usual,” Heritage Foundation, March 2, 2009.

[16] Tom Coburn, *Breach of Trust: How Washington Turns Outsiders into Insiders* (Nashville: WND Books, 2003), p. 177.

[17] Jeff Flake, “Earmarked Men,” op-ed, *New York Times*, February 9, 2006.

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