The Republican Party's Welfare Queens

May a Thousand Enrons Bloom

by Doug Bandow

Republicans routinely portray themselves as fiscal guardians. In truth, they, like the Democrats, are irresponsible wastrels. Outlays are up by one third under President George W. Bush, making him the biggest spender since Lyndon B. Johnson. As the Cato Institute's Stephen Slivinski observes, "Even after excluding spending on defense and homeland security, Bush is still the biggest-spending president in 30 years."

In contrast, Ronald Reagan cut real domestic spending. Notes Slivinski: "George W. Bush's tenure, however, is a return to the Johnson and Carter philosophy of budgeting: across-the-board increases in defense as well as nondefense spending, and at astonishing rates."

Other than a brief moment after the GOP gained control of Congress in 1994, Republican legislators have shown little interest in controlling spending. Outlays continue to move ever upward, irrespective of year or party—or program effectiveness. In its 1994 Contract With America, the GOP promised to kill three Cabinet departments and more than 200 programs. All of the departments and all but 19 of the programs survive. The collective budget of the largest 100 programs on the Republicans hit list are up more than a quarter, even after adjusting for inflation.

Since 2001, total domestic outlays have jumped an incredible 36 percent. As for the Bush administration's supposed newfound stringency, Slivinski points out that, "Even if Congress passes Bush's new budget exactly as proposed, not a single cabinet-level agency will be smaller than when Bush assumed office." Comptroller General David M. Walker reports that the current federal debt and other unfunded liabilities run $45 trillion in current dollars, or about $150,000 per person—the same as Americans' average net worth. And GOP legislators are no more willing to make hard fiscal decisions than the President is. The irresponsibility is mutually reinforcing. Rep. Tom Cole (R-OK) rightly observes that "we have used the legislative and executive branch as well as anybody to achieve our policy aims."

Not all expenditures are created equal. There is more than enough simple waste. There also are thousands of pork-barrel projects, whereby legislators take money from U.S. taxpayers to pay for projects for local voters. Even where the government fulfills its formal responsibilities—national defense, for instance—it usually spends far more than necessary (in this case, by protecting almost every country except America).

Particularly obnoxious is our government's welfare program for business. It is one thing to devote money to poor people, but why should the federal government collect taxpayer dollars to underwrite big exporters, such as Boeing? Or to pay to advertise Big Macs abroad? Or to help the oil companies come up with new oil discovery and recovery techniques? Or to underwrite office developers and home builders?

Slivinski figures some 130 programs underwrite business to the tune of $90 billion annually. These payments pervade the federal budget; even the Department of Defense has been used as a vehicle to enrich business. Economist Stephen Moore testified before the House Budget Committee: "These welfare payments come in every conceivable shape and size, including government grants, contracts, cut rate insurance, loans, and loan guarantees."

The primary problem is expenditures, because subsidies cost more than tax preferences. Congress frequently twists the tax code to the advantage of special interests, very often individual businesses or single industries. However, there is an important difference between subsidies and targeted tax cuts: Subsidies transfer wealth from those who earned it to those who have not done so, while tax cuts typically allow some earners to keep more of their own money. The best response to preferential tax cuts is to reform taxes more generally, broadly cutting rates for earners while eliminating special preferences.

The largest single font of corporate-welfare programs is the Department of Agriculture. In 1995, the GOP Congress passed the Freedom to Farm Act, nominally designed to reduce the federal role in agriculture. When food prices dropped, however, the Republicans rushed to dump "emergency" cash payments on an important political constituency. Then, in 2002, the Republicans essentially abandoned the legislation. The Congressional Budget Office figures farm spending will run $97 billion between 2006 and 2010.

Some of this taxpayer money does not even go to farmers who are actually farming. Even Rich Lowry of *National Review* notes:

> Federal subsidies are technically designated only for those who actually work in farming. But that restriction is evaded, sometimes by people occasionally participating in farm-related telephone conference calls. Dubious partnerships are a way to get around restrictions on how much any one operation is supposed to get in federal payments. As a result, some agriculture businesses are little better than Enrons with tractors.

The largest amount of government dollars runs through the Commodity Credit Corporation to subsidize crop production. Some subsidies are more complicated: Tobacco subsidies mix production quotas and price guarantees. As if decades of these tobacco subsidies—even as government was conducting yet another War on Cigarettes—were not enough, last year,

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Congress voted to spend $10.1 billion to buy up tobacco allotments. Now the House is considering legislation to extend the pay-off to reservists serving in Iraq who missed collecting the booty because they were not able to sow a crop in 2003.

Uncle Sam runs a variety of promotion programs, both domestic and foreign. In some cases, the Department of Agriculture collects forced assessments from producers and runs propaganda campaigns. Cattle producers challenged the program, but, in May, the U.S. Supreme Court upheld Washington's state-managed advertising.

Campaign-funding abuses pervade the two major political parties and are inextricably linked to corporate welfare. The connection between political contributions and business subsidies is why President Bill Clinton appointed a succession of Democratic fixers and fundraisers as Commerce secretary.

In the case of sugar, direct payments are buttressed by import restrictions, pushing domestic prices up to two or three times international levels. In fact, sugar producers are among the most fervent opponents of the Bush administration's proposed Central American Free Trade Agreement. Whatever one thinks of CAFTA, U.S. policy should not be decided by a handful of sugar-beet and cane producers desiring to live off of everyone else to the tune of upward of two billion dollars annually.

To its credit, the White House has proposed limiting any individual farmer to $250,000 (compared to the present level of $360,000) per year. Today, a tenth of recipients collect 60 percent of the payments. However, few legislators share even this modest interest in fiscal integrity.

Many other examples of corporate welfare have been in the news of late. For instance, the Pension Benefit Guarantee Corporation (PBGC), intended to protect the retirements of workers at failing companies, has become the dumping ground for uncompetitive airlines. Both US Airways and United have shifted their liabilities onto Washington: The PBGC is now $23 billion in the red.

Delta, Northwest, and other airlines are also clamoring for relief and threatening to follow the other two airlines into bankruptcy. Left unreformed, the PBGC is a potential fiscal black hole. Collectively, private pension plans are underfunded by about $450 billion, and, on average, one plan defaults every three days.

The Bush administration and the European Union have filed competing suits before the World Trade Organization over their respective subsidies to aircraft manufacturers Boeing and Airbus. The United States has the better case, but only relatively. For years, the Export-Import Bank has been known as "Boeing's Bank" for generously underwriting foreign purchases of that company's aircraft.

Boeing has reaped federal and state tax benefits, and, moreover, defense procurement has been designed to its advantage. In 2001, the Bush administration proposed $30 billion to lease aerial tankers in a transaction that would have cost more than purchasing the tankers outright. "We all know that this is a bailout for Boeing," observed Ronald G. Garant of the Pentagon's comptroller's office, in an e-mail cited in the newly released Department of Defense inspector general's report. Conflict-of-interest charges ultimately sank the deal.

Recently, both the House and Senate approved variants of a bloated transportation bill. The Senate's measure cost almost $300 billion. The House and the Bush administration sought to demonstrate their fiscal *bona fides* by holding the line at "only" $284 billion—a 35-percent increase over the previous program.

Moreover, in the name of energy independence, the Bush administration is pushing boondoggle-filled energy legislation. Between the President and Congress, virtually no energy business would not be subsidized. For instance, the House bill authorized $11 billion—and as much as $90 billion—for energy research. Two billion dollars of that would be for research on deep-water recovery of oil and natural gas. The House had an $8 million sugar-ethanol pilot project in Hawaii; the Senate included $250 million in loan guarantees for even more projects.

President Bush pressed a Coal Research Initiative to improve the environmental efficiency of coal-powered plants. He has pushed a $1.8 billion Hydrogen Fuel Initiative to create hydrogen-powered fuel cells for cars.

The House legislation also included $8 billion in tax incentives—$3.2 billion for oil and natural gas, $1.5 billion for electricity, $1.4 billion for coal, $1.3 billion for nuclear, and $415 million for renewables and efficiency technology. The White House wants to create a $2.5-billion tax incentive for energy-efficient hybrid and fuel-cell vehicles. It also proposed tax benefits for "residential solar energy systems, combined heat and power projects, and electricity produced from alternative and renewable sources such as wind, solar, biomass, and landfill gas."

That isn't all. The bill would increase mandated use of ethanol—an expensive fuel that takes 29-percent more energy to produce than it creates—from three billion gallons in 2004 to eight billion gallons in 2012. (This increase would cost consumers $8.4 million annually.) The Bush administration has undertaken the Energy Star program "to promote energy efficient products." Further, President Bush wants more money for the "Weatherization Assistance Program." And he would turn old military bases over for use as oil refineries.

There are many proposals to spend even more. For instance, a coalition of environmentalists and national-security conservatives proposes devoting as much as $12 billion to developing more fuel-efficient cars and alternative-energy sources. Lobbying group Set America Free is seeking billions for almost everything: hybrid autos, ethanol and methanol plants, fuel cells, and hybrid vehicles.

President Bush justified his wasteful proposals as a means of promoting energy independence. But the marketplace for energy obviously works. Since 1970, 800 billion barrels of oil have been consumed, while 1,500 billion barrels of oil have been added. That is, a mix of economics and technology has increased the relative supply of petroleum—companies can explore and produce in deeper water, for instance. Meanwhile, the recovery rate for oil supplies has increased from 20 percent to 35 percent.

Companies have an incentive to invest in new energy technologies. General Motors already has devoted one billion dollars to creating a hydrogen-fuel-cell car. Although companies make mistakes, government "investments" almost always turn out poorly. The 1970's energy crisis spawned a series of expensive, wasteful initiatives, such as the Synthetic Fuels Corporation. Tens of billions of dollars disappeared, largely without a trace. The only beneficiaries were firms that cashed in as long as the federal largesse was flowing.

Corporate welfare is presented as a means to promote business and employment. These subsidies, however, actually reduce overall economic activity. Corporate welfare diverts money from economically productive to politically favored uses. Even when the spending is not a total bust, it is less productive than alternative private investment. The right way to improve economic growth, productivity, and job creation is to cut taxes and regulation for all enterprises rather than favoring a select few.

Since leading businessmen are often in the forefront of calling for fiscal responsibility, cutting corporate welfare should be a slam dunk. In 1987, nearly 200 business leaders joined the Bipartisan Budget Appeal, organized by former Commerce secretary Peter G. Peterson. Joining the list were the heads of Air Products & Chemicals, Archer-Daniels-Midland, Allis-Chalmers, Ashland Oil, Boeing, Boise Cascade, Brown University, Chrysler, General Dynamics, Harvard University, Hyatt, James River Corp., Kaiser Aluminum, McGraw-Hill, Mead Corp., Metropolitan Life Insurance, Mobil Oil, Packaging Corp., Pennwalt, Potlatch, Scott Paper, Southern California Edison, TRW, Unocal, *U.S. News & World Report*, Westinghouse, and Weyerhaeuser Co. All of these enterprises had received one or more federal subsidies, yet none offered to return their ill-gotten gains. A decade later, numerous corporate leaders made a similar appeal to Congress, but they responded with silence when challenged by Ralph Nader to forgo federal welfare payments.

Even if companies refuse to sacrifice in order to promote the public interest, cutting corporate business subsidies should be an easy political sell. The programs unfairly enrich wealthy and powerful interests at the expense of poor consumers and middle-class taxpayers. Killing business subsidies would free up $90 billion annually for other purposes—for instance, to fund tax cuts for people currently overcharged to finance other wasteful government programs or to manage the transition from Social Security's pay-as-you-go system to private workers' retirement accounts.

According to Public Choice economics, concentrated private interests tend to defeat the diffuse public interest. Thus, combining cuts in corporate welfare with another popular initiative, such as tax reductions, would be the most effective way to build public support for eliminating corporate welfare. Another possibility, akin to that used to close federal bases, would be to create a commission to recommend program cuts, with Congress limited to a yes-or-no vote on its final report.

Progress also could be made by taking a variety of smaller steps to cut aid to dependent corporations. For instance, Stephen Moore suggests requiring companies to report how many federal grants and how much federal money they receive every year; limiting the number of subsidies any company can receive; barring aid to any individual or company with net earnings of more than one million dollars; setting time limits for corporations to receive federal aid (the two-year restriction set for AFDC is an obvious place to start); restricting aid to profitable firms (terminate grants to any company with positive earnings, or earnings of a certain level, the year before); and barring corporate-welfare beneficiaries from lobbying Congress (choose either the money or the right to lobby).

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Moore's last suggestion exposes a hidden problem. Campaign-funding abuses pervade the two major political parties and are inextricably linked to corporate welfare. Indeed, the connection between political contributions and business subsidies is why President Bill Clinton appointed a succession of Democratic fixers and fundraisers—Mickey Kantor, Ronald Brown, and William Daley—as Commerce secretary.

Unfortunately, for all of the claims of fiscal responsibility that flow out of Washington, the bipartisan consensus favors big, expansive, expensive government. As venture capitalist Tim Draper complained to a group of Senate Republicans in 1997: "If you can't push AT&T and GE off the dole, how can we ever expect to get farmers, unions, artists, and seniors to give up their subsidies?"

There is obviously much that could be done to encourage fiscal responsibility. Constitutional limitations, procedural reform, and streamlining entitlements would all help. Most important, however, would be for policymakers to grow a little backbone. Legislators—especially Republicans who most often prattle on about fiscal responsibility—need to find a new application for "Just say no."

REVIEWS

Things That Go Bump in the Night

by Scott P. Richert

"We are born with the dead / See, they return and bring us with them."
—T.S. Eliot, "Little Gidding"

Ancestral Shadows
by Russell Kirk
Grand Rapids, MI: Eerdmans Publishing Company; 406 pp., $25.00

"The philosophical and ideological currents of a period necessarily affecting its imaginative literature," wrote Russell Kirk in "A Cautionary Note on the Ghostly Tale,"

> the supernatural in fiction has seemed ridiculous to most, nearly all this century. Yet as the rising generation regains the awareness that "nature" is something more than mere fleshly sensation, and that something may lie above human nature, and something below it—why, the divine and the diabolical rise up again in serious literature. In this renewal of imagination, fiction of the preternatural and the occult may have a part.

In the renewal of that fiction, Dr. Kirk—better known as the author of *The Conservative Mind* and one of the founders of the modern American conservative movement—tried to play his part. The stories collected in *Ancestral Shadows: An Anthology of Ghostly Tales* are only 19 of

Melanie Anderson

the dozens of fantastic tales that Kirk published in his lifetime and an even smaller portion of the scores of stories that he told to family, friends, and even the passing strangers to whom he so frequently extended his hospitality. While his political and historical works vastly outweigh these tales in both number and influence, Kirk himself knew that his fiction could more directly shape the moral imagination. And it has had the opportunity to do so: While *The Conservative Mind* has remained in print since its first publication in 1953, it is not Kirk's bestselling book. That honor belongs to *The Old House of Fear* (1961): Though no longer in print, this gothic horror novel has sold more copies than all of Kirk's other books—*combined*.

So why is Kirk's fiction not better known among self-identified conservatives? The first answer, sadly, is that most such people do not read fiction—and, all too often, they take great pride in saying so. The other answer, equally important, is that Kirk's fiction is truly conservative, and self-identified conservatives today simply aren't. *National Review*'s John J. Miller has, in recent years, recommended Kirk's fiction to NR readers, but when Kirk's memoirs, *The Sword of the Imagination*, were published in 1995, Miller scoffed at Kirk's belief in ghosts. What kind of progressive, compassionate, big-government, national-greatness conservative can believe that "There are more things in heaven and earth, Horatio, Than are dreamt of in your philosophy"? Let such thoughts in, and uncertainty may follow, and then what would happen to our ability to *act*?

Such uncertainty surrounds us every day, and it is only the ideologue—a creature of the left, whether he calls himself a Marxist or a conservative—who can see the world entirely devoid of shades of gray. Shadows are never uniformly black, and if the hard lines of rationalism are allowed to give way to fear—either the salutary fear of the Lord or the fear that arises naturally from our fallen human nature—we may soon find that we perceive in those shadows more than just the play of light. And since, throughout the centuries, man has believed those perceptions to be glimpses of a greater reality, who are we to be certain otherwise?

In opposition to the rationalist and the ideologue, Dr. Kirk had his own certain-

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