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CONGRESSIONAL TESTIMONY

**Corporate Welfare Wastes
Taxpayer and Economic Resources**

**Testimony before
the Subcommittee on Federal Spending Oversight and
Emergency Management
United States Senate**

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My name is Romina Boccia. I am the Grover Hermann Research Fellow in Federal Budgetary Affairs and Research Manager at The Heritage Foundation's Institute for Economic Freedom and Opportunity. I thank Chairman Paul and Ranking Member Baldwin and members of the committee for the opportunity to express my views on wasteful spending in the federal government. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

A 2014 Gallup poll (the most recently available) reported that Americans believe the federal government wastes 51 cents of every dollar that they pay in taxes.¹ The first and last time respondents had the perception that the U.S. government wastes more than half of all the resources it takes from its citizens was in 2011. In that year Standard and Poor's downgraded the U.S. credit rating after Congress and the President agreed to an inadequate budget deal that signaled little commitment to controlling the sources of growth in federal spending, and in exchange for raising the debt limit by more than \$2 trillion.² 2011 was also the year in which Occupy Wall Street set up camp in New York City, Washington DC, and other cities, in part to protest corporate welfare that institutionalizes inequality under the law.³

As Congress is increasing deficit spending by exploiting loopholes in the Budget Control Act of 2011 and by intentionally excluding new mandatory spending from statutory pay-as-you-go rules (as was the case with this year's agreement to repeal the Medicare sustainable growth rate formula or "doc fix") it is no surprise that Americans are continuing to lose faith in their government to act in the public interest and effectively address growing spending and debt.⁴

My remarks today will focus on how corporate welfare wastes taxpayer and economic resources. Corporate welfare or crony capitalism is a destructive force that undermines public trust in the institutions of the free market and in government itself. As average Americans' perception of wasteful spending in a system that is rigged against them has increased, so has public trust in government declined. A late 2014 Gallup poll (the most recently available) shows that while trust in all three branches of government is at or near record lows, trust in the legislative branch has declined the most. Only 28 percent of Americans said they had a great deal or even a fair amount of trust in the House of

¹Rebecca Rifkin, "Americans Say Federal Gov't Wastes 51 Cents on the Dollar," Gallup, September 17, 2014, <http://www.gallup.com/poll/176102/americans-say-federal-gov-wastes-cents-dollar.aspx> (accessed September 22, 2014).

²J. D. Foster, "U.S. Credit Rating Downgraded: Now They've Done It," Heritage Foundation *WebMemo* No. 3337, August 6, 2011, <http://www.heritage.org/research/reports/2011/08/us-credit-rating-downgraded-now-theyve-done-it>.

³Nicholas Kristof, "Crony Capitalism Comes Home," *The New York Times*, October 26, 2011, http://www.nytimes.com/2011/10/27/opinion/kristof-crony-capitalism-comes-homes.html?_r=0 (accessed June 4, 2015).

⁴Romina Boccia, "What the Budget Conference Should Accomplish," *The Daily Signal*, April 28, 2015, <http://dailysignal.com/2015/04/28/what-the-budget-conference-should-accomplish/> (accessed June 4, 2015).

Representatives and the Senate.⁵ Trust in the legislative branch has been falling since 2006, and fell 6 percentage points this year to the new low of 28 percent. That is a deeply disturbing trend.

As trust in government declines, Americans' perception of government waste has increased along with government spending.

High perceptions of government waste and low levels of trust are in part a result of Americans recognizing that the federal government does too many things that would be done better by individuals or businesses in the private sector, by state and local governments, or that should not be done at all. Moreover, bank and auto industry bailouts and massive government handouts to well-connected business as part of the so-called stimulus conveyed to Americans in no uncertain terms that corporate welfare and cronyism are rampant in the federal government.

Corporate welfare and crony capitalism are reflected both in backroom deals in which a small group of individuals influence legislation or regulation to benefit a narrow interest at the expense of the broader public and in the establishment of government programs that purport to serve broader noble goals but divert resources away from the wants and needs of consumers and toward political purposes.

Corporate welfare and crony capitalism is reflected in a variety of different activities, including:

- Direct subsidies, loan guarantees, and technical assistance programs;
- Narrow tax credits to benefit certain industries;
- Regulation and trade barriers; and
- Congressional and presidential earmarks to reward political friends.

Corporate welfare and crony capitalism waste taxpayer resources by spending resources taken for the public benefit on a more narrow, well-connected interest group instead. Taxation inherently creates economic distortions and unnecessary taxation that goes beyond what is necessary to pay for constitutional government and needlessly wastes taxpayer and economic resources. Regulation, not for the benefit of the public but to provide advantages to certain firms at the expense of others, further distorts economic processes and creates a less prosperous and more unequal society than would be the case under limited, constitutional government.

Every dollar spent by the federal government for the benefit of a well-connected interest group is a dollar that is no longer available to American families and businesses to spend and invest to meet their own wants and desires. Corporate welfare spending is particularly morally reprehensible when government spends resources that belong to the next generation of Americans.

⁵Jeffrey M. Jones, "Americans' Trust in Executive, Legislative Branches Down," Gallup, September 15, 2014, <http://www.gallup.com/poll/175790/americans-trust-executive-legislative-branches-down.aspx> (accessed June 4, 2015).

With permanent and chronic deficits today and in the foreseeable future, every additional dollar spent on corporate welfare is a dollar that is taken from the next generation. Lawmakers should keep this in mind when they hand out taxpayer money to corporations and politically connected nonprofit entities that are anything but nonprofit. Businesses and charitable organizations should succeed if they provide value for consumers and donors, not because they receive favorable treatment by government officials.

The most comprehensive, substantive, and lasting solution to addressing the corporate welfare and crony capitalism that emanates from Washington is to return to limited government. To reduce the size of government we must limit the scope of government.

One approach to reducing the size and scope of government is to eliminate programs that provide special benefits to groups who do not provide a public good. Corporate welfare and crony capitalism clearly meet this litmus test. To this end, I have compiled a list of 21 programs that represent corporate welfare spending that wastes taxpayer and economic resources. Each program on this list takes taxpayer money and gives it to a business or uses it to promote business activities, either for the purpose of supporting the business directly or to achieve some other goal that lies outside the proper domain of the federal government. In addition, several programs on this list are duplicative of other federal, state, and local efforts and several have come under scrutiny for blatant waste and abuse. Congress should eliminate these programs.

Recognizing the limitations of Congress's budget process and the realities of logrolling in Congress to get bills passed, I follow this list of recommended programs to eliminate with a proposal to establish a waste commission that can overcome the political difficulties inherent in trying to eliminate corporate welfare and other wasteful federal programs.

Corporate Welfare Programs Congress Should Eliminate

1. Export–Import Bank. The U.S. Export–Import Bank (Ex–Im) is the government agency that subsidizes American exports by foreign firms with taxpayer backing of its loans. Proponents claim the bank aids small business, creates jobs, and “levels the playing field” in global trade. In fact, Ex–Im is little more than corporate welfare. It provides overseas companies with billions of dollars in financing at favorable rates. Ex–Im disadvantages American airline companies by favoring foreign buyers of American aircrafts. Delta Airlines and the Airline Pilots Association, for example, filed a legal challenge last year against Ex–Im for subsidizing the purchase of Boeing aircraft by foreign airlines. According to the lawsuit:

The bank's aggressive approach to aircraft financing allows foreign airlines to borrow at much cheaper rates than they could in the private market. Cheaper financing, in turn, leads to competitive advantages for foreign airlines...shifts industry growth abroad, and puts downward pressure on American production and employment.⁶

⁶*Delta Air Lines v. Export–Import Bank of the U.S.*, Case No. 13-00424, U.S. District Court, District of Columbia.

Ex-Im backs less than 2 percent of U.S. exports each year, mostly to the benefit of giant companies like Boeing and Caterpillar. As my Heritage colleague, Diane Katz, has laid out in greater detail, just 10 companies were the beneficiaries of 64 percent of Ex-Im subsidies in 2013, including Boeing (30 percent), General Electric (9.5 percent), Bechtel (6.6 percent), and Caterpillar (4.9 percent).⁷ Moreover, the chairman of the government's Export-Import Bank has repeatedly mischaracterized several deals that have benefited billionaire Elon Musk, claiming that Ex-Im support for SpaceX represents necessary support for a small business with limited export financing options.⁸ Congress should allow Ex-Im's charter to expire on June 30.

2. Overseas Private Investment Corporation. The Overseas Private Investment Corporation (OPIC) is the government agency that promotes investment in developing countries. OPIC provides loans and loan guarantees; subsidizes risk insurance against losses resulting from political disruption, such as coups and terrorism; and capitalizes investment funds. OPIC subsidizes private risk and puts taxpayers on the hook for this exposure, similar to the Export-Import Bank.⁹ Government backing of private loans encourages moral hazard in lending as companies take on more risk than is prudent because they are largely shielded from losses. Some OPIC projects that reek of corporate welfare include financing for Papa John's pizza franchises in Russia and financing for a Ritz-Carlton hotel in Istanbul, Turkey. Congress should eliminate OPIC.

3. The Market Access Program. The Market Access Program (MAP) uses taxpayer dollars to promote U.S. agricultural products overseas. MAP is nothing more than a corporate welfare program that costs millions of dollars to help large, profitable corporations and trade associations with overseas marketing and promotion. In fiscal year (FY) 2015, MAP allocated \$173 million to groups like:¹⁰

- The Cotton Council International (\$16 million);
- The U.S. Meat Export Federation (\$11 million); and
- The Popcorn Board (\$400,000)

Under MAP taxpayers have recently helped to fund international wine-tastings, organic hair products for cats and dogs, and a reality television show to promote cotton in India. The Department of Agriculture's Market Access Program also provided \$400,000 to the liquor lobby, which used part of those funds to transport foreign journalists to different

⁷Diane Katz, "Ex-IM Misrepresents Subsidies to Prominent Billionaire," *The Daily Signal*, May 1, 2015, <http://dailysignal.com/2015/05/01/ex-im-misrepresents-subsidies-to-prominent-billionaire/>.

⁸Ibid.

⁹Brad Watson, "Eliminate the Overseas Private Investment Corporation," Heritage Foundation *Budget Book*, 2015, <http://budgetbook.heritage.org/international-affairs/eliminate-overseas-private-investment-corporation/>, and Bryan Riley and Brett D. Schaefer, "Time to Privatize OPIC," Heritage Foundation *Issue Brief* No. 4224, May 19, 2014, http://thf_media.s3.amazonaws.com/2014/pdf/IB4224.pdf.

¹⁰U.S. Department of Agriculture, Foreign Agricultural Service, *MAP Funding Allocations – FY 2015*, 2015, <http://www.fas.usda.gov/programs/market-access-program-map/map-funding-allocations-fy-2015> (accessed June 4, 2015).

breweries and distilleries in the southeastern United States. Taxpayers should not be forced to subsidize the marketing that private businesses should do on their own.

4. TIGER grants (National Infrastructure Investment Grants). National Infrastructure Investment Grants, more commonly known as TIGER grants (for Transportation Investment Generating Economic Recovery), were established during the stimulus as a temporary program to boost federal spending on infrastructure. Unsurprisingly, the program has outlived its original “temporary” status and continues to dole out funds for the construction of local pet projects that waste resources as projects get funded with federal taxpayer money that states and localities may not have otherwise undertaken.

From 2009 to 2014, TIGER grants funded local projects such as:

- **City of American Falls Complete Streets project (\$2.3 Million).** Federal money will fund the establishment of wider sidewalks, bike lanes, trees, lighting, art, and streetscaping in American Falls, Idaho. The project will “narrow travel lanes” to accommodate these supposedly transportation-enhancing projects.¹¹
- **Carrie Furnace Flyover Bridge (\$10 Million).** Grant funds will be used to help “redevelop a historic blast furnace site” suffering from environmental degradation in Allegheny County, Pennsylvania.¹²
- **Vision Zero Program in New York City (\$25 Million).** Provides \$25 million for New York City—a bastion of auto congestion—to establish “safe pedestrian access to schools and transit, and safe bicycle access to jobs.” This will be accomplished primarily through building “curb extensions, pedestrian islands, expanded sidewalks, and protected bike lanes.”¹³

The TIGER grant program has long outlived its temporary status and continues to fund projects that should either not be funded, or funded at the local or state level if desired by local citizens. Federal-level spending funds projects that might otherwise not get taxpayer funding, acting as a boon for local construction projects. The program should be eliminated after drawing down existing commitments.

5. The Essential Air Service Program. The Federal government subsidizes little-travelled rural flights through the Essential Air Service (EAS) program. EAS was established following the deregulation of the airline industry in 1978 and was initially expected to be temporary, but has been constantly renewed. Airlines should establish routes on the basis of whether those routes make business sense. EAS funding is often used to subsidize flights that are almost entirely empty: data shows that 44 of the 113 subsidized routes flew at least two-thirds empty.¹⁴ Federal taxpayers should not subsidize airline routes, especially when cheaper or more practical alternatives that do not require subsidies exist. The Essential Air Service should be eliminated, leaving its routes to

¹¹U.S. Department of Transportation, *TIGER Grant Data*, October 3, 2014, <http://www.dot.gov/policy-initiatives/tiger/tiger-grant-data> (accessed June 4, 2015).

¹²Ibid.

¹³U.S. Department of Transportation, *TIGER 2014 Awards*, 2014, http://www.dot.gov/sites/dot.gov/files/docs/TIGER14_Project_FactSheets.pdf (accessed June 4, 2015).

¹⁴CBS News, “Is Essential Air Service Wasting Taxpayer Money?” CBS Interactive Inc., February 24, 2015, <http://www.cbsnews.com/news/government-subsidized-essential-air-service-waste-of-taxpayer-money-some-say/> (accessed June 4, 2015).

stand on their own merits in the private sector or to be subsidized at the state or local level if those governments deem it absolutely necessary.

6. Amtrak Subsidies. Amtrak is a money-losing entity addicted to corporate welfare subsidies. Whether Amtrak is a fully private or public entity or something in between,¹⁵ the facts are that Amtrak has been a managerial morass and perennial money loser for the federal government, which continues to provide operating and capital subsidies to even the most invariable routes (essentially all of Amtrak's routes outside the DC-NY-Boston Northeast Corridor). Last year Amtrak's net losses totaled almost \$1.4 billion, including an operating loss of almost \$227 million.¹⁶ Congress should phase out federal subsidies for Amtrak and allow privatization and competition on the Northeast corridor and other routes that make financial sense. Long-haul routes and other invariable routes should be closed or turned over to state management.

7. The New Starts Program. The New Starts Program (also known as Capital Investment Grants) provides perverse incentives for state and local governments to ignore maintenance of existing infrastructure in favor of building brand new transit projects that are expensive and unnecessary. This "free" federal money often leaves states on the hook for losses and expensive maintenance that they cannot afford after projects are completed. In addition, the program does not use rigorous standards to ensure that recipient projects are economically, logistically, or environmentally beneficial for the receiving area. As a result, many New Starts projects actually increase congestion, reduce mobility, or consume more energy than the current system or cheaper alternatives ineligible for New Starts funding.¹⁷ Congress should eliminate the New Starts Program and leave state and local governments to direct transportation funding as they deem best.

8. The Maritime Administration (MARAD). MARAD funds a host of subsidy programs that protect the U.S. shipbuilding industry from foreign competition. In addition, a Government Accountability Office (GAO) report has identified that MARAD's loan programs, which administer billions of dollars in loan guarantees for ship and shipyard construction, did not comply with statutory requirements and experienced "large-scale defaults" as a result of mismanagement and violation of sound business principles.¹⁸ Protectionism is further entrenched by the taxpayer-funded Operation Differential subsidy, which pays ship operators to use more expensive American shipping, and the incredibly restrictive Jones Act, which requires that any

¹⁵Robert Barnes, "Supreme Court Says Amtrak Is More Like a Public Entity Than a Private Firm," March 9, 2015, http://www.washingtonpost.com/politics/courts_law/2015/03/09/dd125130-c691-11e4-aa1a-86135599fb0f_story.html (accessed June 4, 2015).

¹⁶News release, "Amtrak Delivers Strong FY 2014 Financial Results," Amtrak, November 25, 2014, <http://www.amtrak.com/ccurl/160/780/Amtrak-FY14-Financial-Results-ATK-14-107.pdf> (accessed June 4, 2015).

¹⁷Randal O'Toole, "'Paint is Cheaper Than Rails': Why Congress Should Abolish New Starts," Cato Institute Policy Analysis No. 727, June 19, 2013, http://object.cato.org/sites/cato.org/files/pubs/pdf/pa727_web.pdf (accessed June 4, 2015).

¹⁸U.S. Government Accountability Office, "Weaknesses Identified in Management of the Title XI Loan Guarantee Program," GAO-03-657, June 30, 2003, <http://www.gao.gov/products/GAO-03-657> (accessed June 4, 2015).

cargo (including passengers) shipped between two U.S. ports must travel on a vessel built, staffed, and flagged in the U.S.¹⁹ MARAD should be eliminated, turning over its international regulatory responsibilities to another federal agency, such as the State Department. Congress should also repeal the Jones Act and all other protectionist regulations and subsidies that have hindered competition in the maritime industry.

9. Rural Business-Cooperative Service. The Rural Business-Cooperative Service (RBS) directs taxpayer money to rural businesses and government-favored activities in rural areas. The RBS also has a significant focus on pushing biofuels and renewable energy projects. Beyond the rhetoric, government funding to help private businesses or energy sources succeed, be they in rural or urban areas, is simply crony capitalist—it is picking winners and losers by government fiat. Private funding finds its way to worthy investments.

10. Technology Innovation Program. The Technology Innovation Program (TIP) was created by the America Competes Act of 2007 and replaced the previous Advanced Technology Program (ATP) which Congress eliminated because it represented wasteful corporate welfare. TIP provides grants to small and medium-sized companies to “support, promote, and accelerate innovation in the United States through high-risk, high-reward research in areas of critical national need,” where “need” is defined by government bureaucrats. Government subsidies for innovation are unnecessary and wasteful. Instead of picking winners and losers in the U.S. innovation race, the government should focus on reducing needless regulatory barriers and tax penalties on saving and investing.²⁰

11. Economic Development Administration. The Economic Development Administration (EDA) provides taxpayer money and technical assistance to economically distressed areas in the form of “grants” and “investments” for local projects, including the private sector. The EDA uses taxpayer dollars to target local political pet projects with a very narrow benefit—in many cases just one particular company or small segment of the population. The EDA is just one of about 180 federal economic-development programs, including the Small Business Administration’s disaster-assistance loans, the Agriculture Department’s rural development programs, and others that Congress should eliminate.²¹

12. Foreign Market Development Program (FMDP). The Foreign Market Development Program (FMDP) was created with the intention of creating, expanding, and maintaining long-term export markets for U.S. agricultural products. It redistributes about \$35 million in taxpayer dollars a year to agricultural boards and associations. For

¹⁹Emily Goff, “Close Down the Maritime Administration and Repeal the Jones Act,” Heritage Foundation *Budget Book*, 2015, <http://budgetbook.heritage.org/transportation/close-maritime-administration-repeal-jones-act/> (accessed June 4, 2015).

²⁰Brian M. Riedl, “The Advanced Technology Program: Time to End this Corporate Welfare Handout,” Heritage Foundation *Backgrounder* No. 1665, July 15, 2013, <http://www.heritage.org/research/reports/2003/07/the-advanced-technology-program-time-to-end-this-corporate-welfare-handout>.

²¹U.S. Government Accountability Office, “Economic Development Administration: Documentation of Award Selection Decisions Could Be Improved,” GAO-14-131, February 6, 2014, <http://www.gao.gov/products/GAO-14-131> (accessed June 4, 2015).

example, the Almond Board of California received funding for “trade promotion” and “trade relations.”²² Government needs to do little more to encourage trade than to reduce export restrictions. Agricultural producers are perfectly capable of promoting their own exports without wasteful government trade distortions.

13. Emerging Markets Program (EMP). The Emerging Markets Program (EMP) promotes exports of U.S. agricultural products to countries that already have or are developing market economies.²³ Taxpayer funding is given to large agricultural boards and associations, including many of the same companies as benefit from other rural development and export programs. This is another program providing corporate welfare for the agricultural industry and is needlessly duplicative.²⁴

14. Technical Assistance for Specialty Crops (TASC) Program. The Technical Assistance for Specialty Crops Program (TASC) provides funding to organizations for projects that address various sanitary barriers that affect the export of specialty crops. Some of the projects include, but are not limited to, field surveys, pest research, and disease research. While many other U.S. industries fund their own research and surveys, the agricultural industry benefits from various government subsidies, which are unfair and distortionary.²⁵

15. Hollings Manufacturing Extension Partnership. The Hollings Manufacturing Extension Partnership provides subsidies to consultants, manufacturers, and business advisers with the goal of bettering the business practices of small and medium-size businesses. The government should not be playing a role in the development of business—this is simply corporate welfare.²⁶

16. The Advanced Manufacturing Technology Consortia. The Advanced Manufacturing Technology Consortia (AMTech) is a grant program through the National Institute of Standards and Technology (NIST) to strengthen private-sector technology. Some of its programs include allocating technology planning grants, funding

²²U.S. Department of Agriculture, *Report to the Congress of the United States Activities of the Foreign Market Development Cooperator Program*, 2012, http://www.fas.usda.gov/sites/default/files/2013-11/fmd_report_2012.pdf (accessed June 3, 2015).

²³U.S. Department of Agriculture, Foreign Agricultural Service, *Emerging Markets Program (EMP)*, <http://www.fas.usda.gov/programs/emerging-markets-program-emp> (accessed June 3, 2015).

²⁴U.S. Department of Agriculture, Foreign Agricultural Service, *FY 2015 Compliance Review Schedule – Market Development Programs*, March 30, 2015, <http://www.fas.usda.gov/programs/resources/fy-2015-compliance-review-schedule-market-development-programs> (accessed June 3, 2015).

²⁵U.S. Department of Agriculture, Foreign Agricultural Service, *Technical Assistance for Specialty Crops*, <http://www.fas.usda.gov/programs/technical-assistance-specialty-crops-tasc> (accessed June 3, 2015).

²⁶Emily Goff and Romina Boccia, “House Can Save \$2.3 Billion More on the Commerce, Justice, and Science Bill,” Heritage Foundation *Issue Brief* No. 3991, July 17, 2013, [http://www.heritage.org/research/reports/2013/07/house-can-save-\\$2-3-billion-more-on-the-commerce-justice-and-science-bill](http://www.heritage.org/research/reports/2013/07/house-can-save-$2-3-billion-more-on-the-commerce-justice-and-science-bill), and Michael Sargent, Romina Boccia, Emily J. Goff, David B. Muhlhausen, and Hans A. von Spakovsky, “Cutting the Commerce, Justice, and Science Spending Bill by \$2.6 Billion: A Starting Point,” Heritage Foundation *Issue Brief* No. 4220, May 12, 2014, <http://www.heritage.org/research/reports/2014/05/cutting-the-commerce-justice-and-science-spending-bill-by-26-billion-a-starting-point>.

competitions for advanced manufacturing planning, and funding technology research. While the Advanced Technology Program was abolished in 2007, AMTech essentially carries out the same mission. The ATP was infamous for being corporate welfare, awarding money to IBM, GE, GM, Motorola, and other Fortune 500 companies.²⁷

17. Department of Energy (DOE) Loan Programs and Loan Guarantees. DOE Loan Programs and Guarantees provide protection for lenders to encourage them to invest in energy projects of government interest. If the project fails, the government pays back the lender in full. This effectively shifts the risk of a loan from the lender to taxpayers. Most importantly, loan guarantees are highly likely to fund government pet projects, such as the \$535 million Solyndra failure. This is cronyism at its best. The government has given the majority of these loans to large companies that already receive backing from plenty of private investors. Moreover, many of the companies that qualified for loan programs were also eligible for loans through the American Recovery and Reinvestment Act and were effectively “double-dipping” in the pool of taxpayer money.²⁸

18. International Trade Administration. The International Trade Administration (ITA) serves as a sales department for certain businesses and promotes investment in the U.S., offering taxpayer-funded subsidies for businesses that promote their products overseas. Promoting U.S. exports is also a task carried out by the Department of Agriculture and the State Department, causing government overlap.²⁹ The ITA’s protectionist policies, including antidumping and countervailing duty laws, prevent free trade and drive up costs for both consumers and businesses. One of the ITA’s programs is the International Buyer Program (IBP) through which the ITA sets up a space “where foreign buyers can obtain assistance in identifying potential business partners, and meet with U.S. companies to negotiate and close deals.” Private companies should facilitate their own business meetings or do so through voluntary trade associations, not on the taxpayers dime.

Universal Service Fund Programs (19–21)

The following three programs are funded from fees paid by telecommunications users through the Universal Service Fund (USF). Run by the Federal Communications Commission (FCC), these programs fund a number of subsidy programs, including those for rural telephone companies, schools and libraries, and low-income consumers. At least two USF programs no longer have any justification for remaining in existence. FCC data show that mobile voice service is already available to 99.9 percent of households and wireless broadband service to over 99.5 percent of the U.S. population, including 97.8

²⁷National Institute of Standards and Technology, *Advanced Manufacturing Technology Consortia (AMTech) Program*, <http://www.nist.gov/amo/> (accessed June 3, 2015), and Riedl, “The Advanced Technology Program: Time to End this Corporate Welfare Handout.”

²⁸Nicolas Loris, “Eliminate Department of Energy Loans and Loan Guarantees,” Heritage Foundation *Budget Book*, 2015, <http://budgetbook.heritage.org/energy/eliminate-department-energy-loans-loan-guarantees/>.

²⁹Sargent et al., “Cutting the Commerce, Justice, and Science Spending Bill by \$2.6 Billion: A Starting Point.”

percent of rural residences.³⁰ Moreover, all three programs have come under scrutiny for blatant waste and abuse.

19. FCC High-Cost Fund/Connect America Fund. The “high-cost fund,” which costs about \$4.5 billion annually, largely supports rural areas where the cost of providing telecom connections is high. The USF, which traditionally subsidized rural phone companies, is currently being replaced by a new fund focusing on rural broadband and wireless service—the USF Connect America Fund. The program provides federal cash regardless of need. Residents of Aspen, Colorado, and Jackson Hole, Wyoming, for instance, receive support regardless of need at the expense of poorer Americans elsewhere.³¹ Moreover, the program has come under scrutiny for blatant waste. Ten telephone carriers in Alaska, Arizona, Colorado, Hawaii, Michigan, Oklahoma, Texas, and Washington were paid the highest subsidies in 2010, including one company in Washington State that received nearly \$24,000 per line in federal subsidies for 16 telephone lines in and around a resort lake town.³² This fund represents corporate waste at its worst and should be ended.

20. FCC E-Rate Fund. The schools and libraries E-Rate fund costs about \$4 billion annually. Originally intended to finance the connection of schools and libraries to the Internet, this goal was completed years ago. Thus, the program was expanded to fund other Internet-related goods and services. The program is unnecessary and has come under scrutiny for blatant waste, including building new fiber optic lines alongside those already in existence, in an effort to bring high-speed broadband to schools in underserved areas in Colorado in 2013,³³ directly competing with local telecommunication providers. The report cited a school in Agate, Colorado, which serves 11 students and now has three separate high-speed broadband connections, including the one provided by taxpayer dollars. The program should be eliminated.

21. The Lifeline Fund. The Lifeline Fund provides discounted phone service and equipment to low-income Americans. The program has been plagued by fraud and abuse, as costs tripled from under \$600 million in 2001 to almost \$1.8 billion in FY 2013.³⁴ Recipients typically receive a free wireless phone and a certain amount of airtime. Comparable plans cost almost \$400 annually per phone.³⁵ Although Lifeline is restricted to one phone per household and only available to those who have an income below 135

³⁰Thomas Hazlett and Scott J. Wallsten, “Unrepentant Policy Failure: Universal Service Subsidies in Voice and Broadband,” 2013, http://works.bepress.com/scott_wallsten/81 (accessed June 5, 2015).

³¹James L. Gattuso, “Cut Universal Service Subsidies,” Heritage Foundation *Budget Book*, 2015, <http://budgetbook.heritage.org/commerce-housing-credit/cut-universal-service-subsidies/>.

³²News release, “Move Over ‘Obama Phone’: FCC Wastes up to \$24,000 Per Line a Year on Phone Subsidies Going into High-Income Areas Around U.S.,” Market Watch, July 10, 2013, <http://www.marketwatch.com/story/move-over-obama-phone-fcc-wastes-up-to-24000-per-line-a-year-on-phone-subsidies-going-into-high-income-areas-around-us-2013-07-10> (accessed June 4, 2015).

³³Deborah Collier, “E-Rate for Education,” Wastewatcher, July 2013, <http://cagw.org/media/wastewatcher/e-rate-education> (accessed June 4, 2015).

³⁴James L. Gattuso, “Cut Universal Service Subsidies,” Heritage Foundation *Budget Book*, 2015, <http://budgetbook.heritage.org/commerce-housing-credit/cut-universal-service-subsidies/#fn2-315>.

³⁵TRACFONE, 2015, <https://www.tracfone.com/direct/Purchase?payGo=true&app=TRACFONE&lang=en> (accessed June 4, 2015).

percent of the federal poverty line or are enrolled in a means-tested entitlement program, the FCC reported that duplicate Lifeline subscriptions topped 2 million, warranting millions in fines to companies for failing to verify recipients' income.³⁶ According to figures supplied by the FCC to *The Wall Street Journal*, 41 percent of subscribers were unable to prove their eligibility for the program.³⁷ Lifeline, a program intended to provide phone service to Americans in need is now a corporate welfare subsidy for phone companies. It should be eliminated. Congress should further resist attempts to expand Lifeline to providing broadband subsidies.³⁸

Concentrated Benefits and Dispersed Costs

The current budget process provides Congress with more incentives to keep funding duplicative and ineffective government programs than to eliminate them, wasting hundreds of billions annually. Although Congress has an opportunity each year, through the appropriations process in particular, to eliminate wasteful corporate welfare programs, Congress almost never leverages this opportunity. Congress's failure to follow regular order in appropriations over the past several years has further worsened the ability for special interests to receive continued taxpayer support as Congress simply extends current funding with a continuing resolution or passes spending bills that span a thousand pages or more.

Special interest groups working closely with lawmakers are able to influence legislation more effectively than individual taxpayers, in part because they have a greater interest in investing time and resources to secure their taxpayer subsidies. A federal government program, for instance, that costs \$135 million annually might give taxpayer dollars to 10 private companies for certain investments. Divided equally among the 10 beneficiary companies, each company receiving \$13.5 million in government support will care a great deal about this program. The beneficiaries will send lobbyists to Washington, making sure that Congress understands how important this program is to them. Moreover, they will work to convince Congress that this program is not only in the companies' private interest, but also serves a grander national purpose.³⁹

³⁶Federal Communications Commission, *Guide*, 2015, <http://www.fcc.gov/guides/lifeline-and-link-affordable-telephone-service-income-eligible-consumers> (accessed June 4, 2015), and Federal Communications Commission, "FCC Proposes \$33 M in Penalties Against Three Lifeline Providers," *Commission Document*, November 1, 2013, <http://www.fcc.gov/document/fcc-proposes-33-m-penalties-against-three-lifeline-providers> (accessed June 4, 2015).

³⁷Spencer A. Ante, "Millions Improperly Claimed U.S. Phone Subsidies," *The Wall Street Journal*, February 11, 2013, <http://online.wsj.com/news/articles/SB10001424127887323511804578296001368122888> (accessed June 4, 2015).

³⁸Rebecca E. Ruiz, "Republicans Resist F.C.C. Proposal for Lifeline Broadband Subsidies," *The New York Times*, June 2, 2015, http://www.nytimes.com/2015/06/03/technology/republicans-resist-fcc-proposal-for-lifeline-broadband-subsidies.html?_r=1 (accessed June 4, 2015).

³⁹Romina Boccia, "How Congress Can Improve Government Programs and Save Taxpayer Dollars," Heritage Foundation *Background* No. 2915, June 10, 2014, <http://www.heritage.org/research/reports/2014/06/how-congress-can-improve-government-programs-and-save-taxpayer-dollars>.

Taxpayers, on the other hand, have much less of an incentive to defend themselves from such a wasteful and unjust program. Divided by the number of federal income taxpayers in the U.S., this program's cost would be less than \$1 for every taxpayer. The incentives, then, are aligned in such a way that the concentrated private interest will dominate over the largely dispersed public interest in terms of the effort that each group will put in to achieve their goals. A program cost of less than \$1 per taxpayer might not sound harmful—until considering that thousands of such programs exist that are, indeed, “nickel and diming” the American public ever deeper into debt.

Today I have listed merely 21 federal programs that receive funding because of concentrated benefits to private firms as costs are dispersed among taxpayers who have more important things to do with their lives than appeal Congress to eliminate this or that program. However, there are many more that Congress should stop funding.

Each year, Congress is confronted with the decision of which federal programs to fund, and to what level. Too often Congress will provide new budget authority for programs whose statutory authorization (the legal authority for the program to continue) has expired. This is known as an unauthorized appropriation. Programs whose authorization has expired should not receive funding until Congress has debated the matter in the appropriate authorizing committee. To the detriment of the nation's fiscal health, Congress has made it a practice to ignore its own budget process rules and continues to authorize funding for programs whose authorizations have long since expired.⁴⁰

Lawmakers are currently considering how much funding to appropriate for discretionary programs—the one-third of the budget Congress must decide on each year. Although Congress is bound by the statutory spending caps enacted as part of the Budget Control Act of 2011, rumors are circulating that some lawmakers would like to spend more than allowed under current law.

Congress could save many billions of dollars by eliminating corporate welfare, reducing duplication and overlap, and eliminating programs that fall outside the proper scope of the federal government. The purpose of a spending cap is to motivate Congress to prioritize among programs and to identify savings in areas that should not receive funding to make resources available in areas of critical need. Congress should not increase discretionary spending as long as Congress's current budget is plagued by waste, corporate welfare, and inefficiencies.

Even if a program has no beneficiaries in a particular lawmaker's district, the lawmaker may agree to fund it with the expectation that his fellow lawmaker will return the favor when it comes to his own pet project.

⁴⁰John Gray, Norbert J. Michel, and Michael Sargent, “House Transportation, Housing and Urban Development Appropriations: The Highway to Bankruptcy,” Heritage Foundation *Issue Brief* No. 4414, June 4, 2015, <http://www.heritage.org/research/reports/2015/06/house-transportation-housing-and-urban-development-appropriations-the-highway-to-bankruptcy>.

Members of Congress in this way collaborate when it comes to funding their pet projects. Lawmakers will exchange favors by granting political support and votes for each other's projects. This practice is known as "logrolling." The practice of earmarking—directing funds to specific projects—was one of the most visible forms of logrolling before Congress adopted a rule banning earmarks in 2010.

Earmarks contributed to spending on often-inappropriate (beyond the scope of government) and wasteful federal programs. At their peak in FY 2006, more than 15,800 earmarks were included in appropriations bills, accounting for almost \$72 billion in federal spending.⁴¹ Even after transparency measures reduced the prevalence of earmarks in FY 2007, FY 2010 appropriations bills still allocated \$32 billion in 11,320 earmarks, according to data compiled by the Congressional Research Service.⁴²

Yet even with the earmark ban in place, lawmakers continue to allocate funding to wasteful, failed, and inappropriate federal programs. This furthers the existence of duplicative and unnecessary federal programs, many of which are nothing but corporate welfare and contrary to the public interest. Broader reforms are necessary to improve government programs and save taxpayer money.

Process Lessons from BRAC

The Defense Department's Base Closure and Realignment Commission (BRAC) provides a valuable mechanism for eliminating wasteful and unnecessary government spending. Creating an independent Government Waste Commission modeled on BRAC would be an effective way to consolidate duplicative programs and eliminate wasteful and inappropriate spending.⁴³

After the Cold War, Congress showed bipartisan interest in closing obsolete military bases around the world in order to re-prioritize military activities, freeing up money to fund other missions or to reduce the deficit. Yet, base closures resulted in the dynamics of concentrated benefits and dispersed costs. Districts in which bases were closed experienced the immediate pain of that decision while the benefits were shared among all taxpayers. It became increasingly difficult to carry out base closures as Members of Congress banded together to protect each other's districts from base closures. This was the case despite the fact that many communities recovered quickly as they turned closed military facilities into engines of private-sector job creation. A commission to close and realign defense bases broke through the gridlock.

In 1988, the Base Closure and Realignment Act established a process for closing or realigning military bases through the Base Closure and Realignment Commission.⁴⁴ The

⁴¹Congressional Research Service, "Earmarks in FY2006 Appropriations Acts," *Memorandum*, March 6, 2006, <http://www.cq.com/pdf/crsreports-3588337> (subscription required; accessed January 22, 2014).

⁴²*Ibid.*

⁴³Boccia, "How Congress Can Improve Government Programs and Save Taxpayer Dollars."

⁴⁴The Base Closure and Realignment Act of 1988, Public Law 100-526, Title II; extensively amended in 1990 (Public Law 101-510).

process began with the Department of Defense examining its forces and installations to compile a list of recommended BRAC actions. The independent BRAC reviewed the list and submitted it to the President with any recommended changes. The President then either approved or rejected the commission's recommendations and submitted the list to Congress for review. If the President approved BRAC's recommendations, but Congress disagreed, Congress could pass a resolution to reject BRAC's plan as a whole, at the risk of a presidential veto. If Congress took no action, the BRAC changes became law.

Although the 2005 BRAC process suffered from several shortcomings and inaccuracies,⁴⁵ overall it has been successful. Congress could apply a similar approach by establishing an independent commission to consider federal government programs based on clear and objective criteria, including attainment of performance goals, adherence to legislative intent, relevance of program goals, outcomes of randomized controlled trial experiments, financial performance, and overlap and duplication with other federal, state, local, and private activities. The idea that an independent commission guided by clear criteria can overcome special interest politics and congressional gridlock in pursuit of the national interest deserves serious consideration.⁴⁶

⁴⁵Government Accountability Office, "Opportunities Exist to Improve Future Base Realignment and Closure Rounds," GAO-13-149, March 7, 2013, <http://www.gao.gov/products/GAO-13-149> (accessed May 8, 2014).

⁴⁶Boccia, "How Congress Can Improve Government Programs and Save Taxpayer Dollars."

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