JOURNAL OF COMMERCE
New York, NY
JULY 29, 1999

Corporate welfare: bad business all around

BY JANICE C. SHIELDS
& JAMES M. SHEEHAN

THE STOCK MARKET IS AT RECORD HIGHS. The economy has been booming. So why are many of America's largest corporations still receiving handouts from Uncle Sam?

The Budget Committee of the House of Representatives addressed this paradox during hearings late last month.

Not only did public-interest groups from across the political spectrum demand an end to corporate welfare, but a group of technology firms also declared their "independence" from Washington's wasteful spending.

The declaration, signed by 50 executives and submitted to Congress, states: "The high taxes that our company and its employees pay to support the current local-state-federal government tax burden of 35% of GDP hurts our economy more than any possible corporate benefit from government spending."

Other companies should heed the technology firms' message — corporate welfare is bad business. These subsidies have many disadvantages.

First, government support for corporations undermines sound business decision-making. Companies that accept government assistance are forced to comply with rules limiting the products, activities and locations subsidized.

For example, each year the Department of Agriculture determines in advance the products and countries for which U.S. exporters will receive Export Enhancement Program cash bonuses. A bureaucratic agency is not capable of fine-tuning international marketing strategies, which may require rapid adjustments to changing conditions abroad.

Respondents to a World Institute survey of firms even suggested that government incentives are counterproductive because they often lead to unproductive and unsustainable investments.

Legislators pass laws and establish subsidy programs that help some companies at the expense of others. The Sugar Program limits U.S. sugar imports, which boosts prices and profits for the sweetener industry but increases costs for companies that use sugar.

According to congressional testimony by the Export-Import Bank's president, only 1% of U.S. exports benefit from Ex-Im's financing and insurance programs; the other 99% must compete against subsidized businesses or find other assistance programs.

Some federal programs force businesses to compete against the government and may even inhibit the development of private-sector companies. Political risk insurance has been provided primarily by public entities, such as the U.S. Overseas Private Investment Corp.

A consortium led by Exporters Insurance Co. proposed a plan for privatizing most of OPIC's outstanding risk insurance policies, demonstrating that private companies are fully capable of serving this market.

Regardless, the Senate Foreign Relations Committee approved the renewal of OPIC (including its insurance program) for another four years, forcing private risk insurers to continue to compete with it.

Government support for companies can increase regulatory burdens. Subsidy programs require applicants to endure endless hours of red tape with no guarantee of receiving the support. Companies also are subjected to regulations that would not apply in the private sector.

Even OPIC, in its comparison of public and private insurance, admits that private carriers are more flexible than official insurers because their operations are not inhibited by considerations of public policy or international relations.

Government support for companies can contradict business public policy campaigns. Corporate leaders who campaign for less government intervention appear hypocritical when they also take government subsidies, services and products.

It is especially ironic when U.S. companies accept government assistance for business in communist and former communist countries, while simultaneously encouraging these countries to adopt the free-market system. In 1998, U.S. companies benefited from $1.3 billion in U.S. Eximbank assistance for exports to China and $600 million for exports to Russia.

Corporations spend billions of dollars annually to promote themselves and their products, but government support for companies may sabotage these efforts.

McDonald's became the corporate welfare poster child in editorials and op-ed articles throughout the country when the company took Market Access Program subsidies to cover part of its overseas advertising costs. Activists report the profits, chief executives salaries and PAC expenditures of corporate welfare beneficiaries, resulting in negative press coverage.

Business leaders seeking to reduce the harmful impact of government aid and maximize shareholder wealth have begun working to eliminate these programs.

The Sweeteners Users Association, which includes Ben & Jerry's, Coca-Cola and M&M/Mars, is fighting the Sugar Program. The technology executives who declared independence from subsidies support the formation of an independent commission to identify a block of programs to cut.

There is a growing realization that government subsidies do not benefit business as a whole.

Now is the time for Congress to stop doling out favors to special interests and start protecting the public interest. Corporate America and the general public would profit immensely from the elimination of corporate welfare.

Janice Shields is director of the Institute for Business Research. James Sheehan is a policy analyst at the Competitive Enterprise Institute.