The Facts Behind the Faces

A POLICY PAPER FROM THE CHICAGO COALITION FOR THE HOMELESS

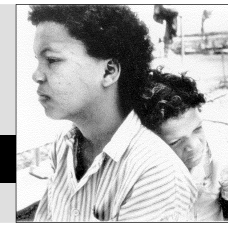


Photo: by Chuck Cherney, Chicago Tribune

# CORPORATE WELFARE

*By: Les Brown, Director of Policy*

Corporate welfare comes in many forms, including tax breaks, "give-aways," grants, loans, incentives, and direct sub-sidies. Ralph Nader defines corporate welfare as a program that involves the government giving more to private companies than it gets back—that is, where it is engaging in a transaction that cannot be justified as a fair market value exchange.

Government officials often try to justify corporate welfare as a way to create jobs. However, more than one million people lost their jobs during 2001, and the rate of job loss has escalated during 2002. In addition, as corporate welfare and corruption continue, the gap between the rich and poor is greater than ever. According to the U.S. census, the proportion of Americans living in poverty rose last year while the income of the middle class fell for the first time since 1991. Meanwhile, corporate CEOs are receiving astronomical salaries, and worker wages are stagnant.

As federal and state lawmakers focus on welfare reform and the continued effort to end welfare "as we know it" for poor mothers and their children, an examination of corporate welfare appears timely. Taxpayer dollars supporting corporations that do not contribute to the public welfare might be better spent in addressing our nation's critical social issues such as homelessness, healthcare, job training and creation, education, and housing.

## Corporate Welfare: FEDERAL

Congress funds more than 125 programs that subsidize private businesses. These business subsidy programs cost federal taxpayers roughly $85 billion annually, and the dollar amount has been growing substantially in recent years.[1] According to Public Citizen, a national non-profit public interest organization, this amounts to the combined annual income tax paid by 60 million individuals and families.

Corporations will pay about $136 billion in federal taxes this fiscal year. However, according to a study by Citizens for Tax Justice, a Washington research group, tax loopholes will save them $171 billion. The economic stimulus package passed by Congress this winter will enlarge those loopholes further. The package provides a 30 percent increase in corporate depreciation write-offs in each of the next three years, tax breaks for multinational corporations that use offshore tax havens, and measures that make applying for rebates of taxes paid in the past easier for companies.[2]

### EXAMPLES

- A prime example of a direct business handout is the Agriculture Department's Market Access Program (MAP), which costs over $80 million per year. For the past 16 years, MAP has given tax dollars to food exporters to cover the costs of overseas advertising campaigns. The 1993 MAP budget included $1.5 million to promote mink furs, over $125,000 to promote frozen bovine semen, and nearly $120,000 to promote alligator hides. Much of this money goes to the United States' largest corporations. For instance, in 1993, Sunkist received $6.6 million, Ernest and Julio Gallo received $4.9 million, and M. and M. Mars received $1 million.[3]
- The Mining Act of 1872 allows companies to purchase federal land for $5 an acre or less and to mine valuable minerals from federal land without paying a cent in royalties. More than 3.5 million acres of public land (an area the size of Connecticut) have been transferred to mining companies for this trivial fee. Attempts to reform the act have failed, thanks to the efforts of the mining lobby interests. In 1994, American Barrick Corporation, a Canadian company, bought nearly 2,000 acres of public land in Nevada that contained over $10 billion in recoverable gold reserves. U.S. taxpayers received less than $10,000.[34]

## Corporate Welfare: STATE

This past year, Illinois's Governor George Ryan and the state legislature cut more than $546 million from the budget and laid off more than 3,300 state employees to help address the state's $2 billion shortfall. Many of these cuts could have been prevented if the decision had been made to close corporate tax loopholes and giveaways.

In Illinois, businesses receive millions in state tax breaks per year, over and above untold millions in local tax breaks as well as loans, grants, land write-downs, and training grants.

### EXAMPLES

- The State of Illinois is using taxpayer money to subsidize the horse track racing industry. This use of public money comes in a combination of tax breaks and direct subsidies. Accord-

*(continued on reverse)*

*(continued from reverse)*

ing to the Illinois Racing Board, the value of these tax breaks and subsidies was nearly $40 million in 2000.[5]

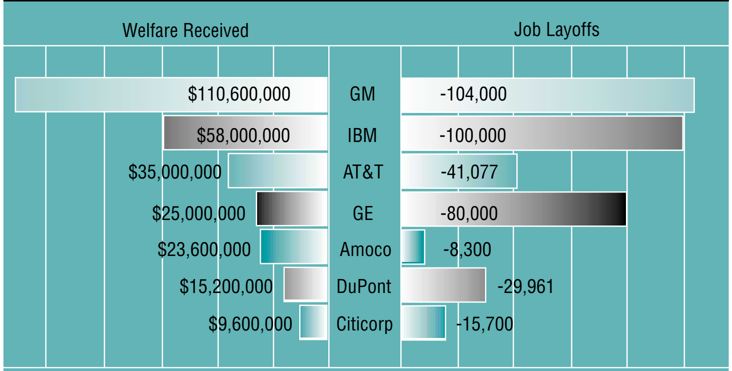
- The retailers' discount was enacted in 1959 to reimburse businesses for the burden of computing and collecting the amount of state sales tax that applied to their sales. Under the statute, retailers keep 1.75 percent of the sales tax they collect. In 2000, over $102 million of tax revenue was retained by retailers to offset the cost of collecting sales taxes. This act was passed at a time when automated record keeping was not available and the process was labor intensive. Now ample technology exists to simplify this process and make the discount inappropriate.[6]

## Political Influence and Corporate Welfare

Millions of dollars are provided to legislators to influence decisions on appropriations, tax policy, and legislation on a wide array of issues. Corporations set aside funds to pay for lobbyists who work overtime to ensure that corporate welfare remains intact and is expanded. A corporate-welfare bureaucracy of an estimated 11,000 organizations and agencies has grown up with access to city halls, statehouses, the Capitol and the White House.[7]

A study examining campaign contribution records of top tax-avoiding companies includes many household names, such as General Electric, Microsoft, and Walt Disney. For example, "The short list of top tax avoiders—41 large profitable companies that received $55.2 billion in tax breaks between 1996 and 1998, including 23 companies that received rebates in 1998—contributed more than $150 million to federal candidates and parties between 1991 and 2002. The majority of this cash, 56 percent, was given in the form of 'hard money' contributions, coming from PACs associated with the companies and from business executives and their families subject to federal limits but 'bundled' in large amounts from these companies."[8]

**Corporate Welfare vs. Layoffs (1990-1994)***




* *Philadelphia Inquirer* Series on Corporate Welfare, June 1995

In the 2000 elections, huge unregulated soft money contributions from corporations, unions, and individuals financed political campaigns. Analysts predicted that by November 2000, soft money totals would top $500 million. Overall campaign spending could hit $3 billion.[9]

Congress looks at funding for vital social programs and environmental protection while, at the same time, needing to fulfill its promises to lobbyists and industries. Industry's wants usually win, leaving little revenue for the management of social and environmental programs and sometimes resulting in deep cuts to essential programs.

## Effects of Corporate Welfare

Tax breaks to corporations lessen government revenues, prompting government to burden the middle and working class with making up for the lost revenue or to cut needed social programs. For example, the U.S. Department of Housing and Urban Development's housing budget has been cut from $74 billion in 1978 to $25 billion today.

Corporate welfare creates an unequal playing field for corporations and fosters an incestuous relationship between government and business. The blatant connections between Enron and the Bush administration are an excellent example. Since 1999, Enron and its executives have given more than $2 million to the Bush campaign and other GOP causes.[10] Enron's access to the administration and its influence on policy development is well known.

Intermingling government dollars with corporate political clout has a corrupting influence on the U.S. system of democratic government.

The fading of corporate taxation helps stock prices. For the most part, this benefits upper-income Americans who own the bulk of corporate shares and widens an already large income gap between rich and poor. It also means Washington must raise individual income taxes, including those on the less than rich.[11]

## Summary

There are those who defend corporate welfare and promote it as a way to create jobs and generate additional revenues, but monthly job cuts averaged 46,349 between 1993 and 2000. As many as 1.2 million layoffs occurred from January to mid-December 2001. Many of these layoffs were done by Fortune 500 companies that receive huge federal subsidies. (see chart)

The incestuous relationship between corporations and government is a dangerous phenomenon that represents a major threat to our democracy. Advocates seeking to move the federal government to address major problems such as education, healthcare, environmental protection, homelessness, and housing have to compete on a totally unequal playing field with superpowerful corporate interests.

Various efforts are under way to address the problem of corporate welfare and the need for campaign finance reform. If you wish to add your voice to these campaigns, you can find relevant information at the following websites: commoncause.org, cato.org, opensecrets.org, and publiccampaign.org.

1 Stephen Moore and Dean Stansel, *Ending Corporate Welfare as We Know It*, Cato Institute (May 12, 1995).
2 Robert S. Mcintyre, "The Taxonomist: The Unrelenting Corporate Welfare Lobby," *American Prospect*, May 6, 2002.
3 *How Corporate Welfare Won: Clinton and Congress Retreat from Cutting Business Subsidies*, Cato Institute Policy Analysis no. 254 (May 15,1996).
4 "*The Mining Law of 1872: Time for an Overhaul*," Natural Resources Defense Council (February 27, 2002).
5 *Alternatives to the Proposed Illinois Budget Cuts*, Center for Tax and Budget Accountability (April 2002).
6 Ibid.
7 *Time* (152, no. 19), November 8, 1998.
8 *Buy Now, Save Later: Campaign Contributions and Corporate Taxation*, a joint project of the Institute on Taxations and Economic Policy, Citizens for Tax Justice, and Public Campaign (November 2001).
9 *Clean Money Campaign Reform*, Public Campaign (September 2002).
10 "Friends in High Places", Josh Gerstein, ABC News.com (December 10, 2001).
11 "Economic Scene," *Christian Science Monitor*, (April 2002).