Rachel's Environment & Health News
#422 - Big-Picture Organizing -- Part 4: Corporate Welfare
December 28, 1994

As we saw last week, the Democratic Party has recently discovered that most Americans are "treading water" economically --barely avoiding drowning. The old "middle class" is disappearing. The common bond that once held the nation together --an expectation of a brighter future for everyone who worked hard and played by the rules --has all but disappeared. As a result, street crime, violence, drugs, white collar crime, dubious practices on Wall Street, and a general attitude of "I got mine" have been steadily growing.

The Secretary of Labor, Robert Reich, says that since the mid-1970s members of the middle class have turned into the "anxious class," afraid of losing their jobs and their health insurance, fearful for their children's future. The underclass has been steadily growing, permanently mired in the inner cities, cut off from good jobs and hope. In 1993, in the midst of an economic recovery with an expanding economy, an additional one million Americans fell into poverty.[1] Meanwhile, the overclass is scooping up most of the available benefits; the wealthiest 2% of Americans saw their incomes rise by 75% during the 1980s.[2] Increasingly the overclass is questioning its connection to the rest of society --moving to elite suburbs, living behind iron gates, protected by private armed guards and Dobermans.

The Secretary of Labor says the main factors destroying the middle class's jobs are high technology and global trade. He says we cannot turn our back on these problems: we must confront them and overcome them. He says that we cannot wish away technology --we must retrain ourselves, prepare ourselves for "lifelong learning" as we constantly adapt to a changing world.

Nor can we close our borders to trade and fall back into the "protectionist" trading mode of years past when we kept foreign goods out with tariffs and quotas. (Thus Mr. Reich embraces NAFTA and GATT, the free trade accords passed by Congress in 1994.) If our economy is to grow, we must learn to compete effectively in global markets, he says.

These two ideas --retraining the workforce to get the good jobs to rebuild the middle class --and preparing our commercial organizations to compete in world markets --come together in Secretary Reich's call for an end to "corporate welfare."

As a political program, the idea of ending corporate welfare originated last year inside the Democratic Party's Progressive Policy Institute, or PPI (which the WASHINGTON POST describes as "moderate to conservative"). The PPI argues that decades of free handouts from Uncle Sam to wealthy corporations should be ended because (a) the money would be more productive if it were invested in retraining the workforce, and (b) free handouts to corporations shield them from competition in the global market, ultimately weakening them.

The argument goes like this: In a world of global production, capital and commerce, government subsidies to corporations eventually erode the competitive position of both the industries that receive them AND those that don't.[2, pg. 3] Unsubsidized companies find themselves at a competitive disadvantage relative to subsidized companies. And, in a global economy, companies at a competitive disadvantage will often move some operations and jobs abroad, where labor and materials are cheaper or subsidies are available. Thus corporate welfare harms the entire U.S. economy.

Spending and tax subsidies, along with trade protections and certain forms of economic regulation, all shield domestic industries from the global competition that drives foreign rivals to upgrade their products and production. Subsidies and protections, therefore, leave their beneficiaries LESS able to succeed.[2, pg. 3]

Most of these subsidies and protections stem not from economic logic but from political influence, says the PPI. From farm supports and tax breaks for oil and gas firms, to textile quotas and telecommunications regulation, these special industry entitlements force taxpayers, consumers and businesses to transfer more resources to influential sectors than markets alone would require. These subsidies are also profoundly regressive, since the ultimate beneficiaries of these spending and tax handouts are the shareholders of the subsidized industries, who tend to be wealthy already.[2, pg. 3]

Corporate welfare has created a culture of dependency that has encouraged certain industries to live off the taxpayers. Year after year, these companies receive subsidies or handouts from the federal government and never learn to fend for themselves in the competitive marketplace. And, unlike the vast majority of individuals who receive public assistance, most corporate welfare recipients are not particularly needy.

A few examples:[3] The federal Bureau of Land Management rents out public lands to ranchers for cattle grazing. In 1992, the BLM's annual grazing fee was $1.92 per animal, according to the National Wildlife Federation. But private landowners charge their grazing customers, on average, $9.26 per animal. The low grazing fees amount to a food stamp program for livestock belonging to wealthy ranchers. In 1992, the government's below-market rates cost the taxpayers an estimated $55 million in revenues.

A typical beneficiary of this subsidy is J.R. Simplot of Grandview, Idaho. He paid the government $87,430 for the privilege of grazing cattle on public land, according to the National Wildlife Federation. If the government had billed Simplot at free-market prices he would have had to pay $410,524. And it's not as if Simplot is going to suffer without public assistance. He is on the Forbes' 400 list of richest Americans with an estimated net worth of just over $500 million.

Another federal handout to corporations is the Department of Agriculture's Market Promotion Program. This year the program will give American companies $100 million to advertise their goods and services abroad. The corporations with outstretched palms include some of the biggest names in American business. In 1991 and 1992 Sunkist Growers, Inc. received $17.8 million to promote citrus products, according to Agriculture Department figures. The Department gave the American Soybean Association $10.4 million in 1992 to promote soybeans. In 1991, Gallo Wines received $5.1 million to promote wine, M&M/Mars received $1.1 million to promote candy bars, the Campbell's Soup Co. received $450,000 to promote V-8 Juice and McDonald's took $465,000 to promote Chicken McNuggets.

Another form of corporate welfare is the government's failure to charge reasonable fees or sales prices for mining minerals on publicly-owned land. Perhaps the biggest beneficiary is the American Barrick Resources Corp., based in Toronto. Since 1987 the company has extracted $8.75 billion (yes, billion) worth of gold from a site in northern Nevada that is the property of the American people. According to the Natural Resources Committee, the federal government is now preparing to sell the land to American Barrick for all of $15,000. By the way, the company's founder paid himself $32 million in 1992.

Vince Borg, a vice-president of public affairs for American Barrick, rejects the idea that Barrick has benefitted unduly. He says the company has spent $11.5 million since 1987 to maintain its claims on the land while awaiting final approval of ownership from the government and has paid $80 million in corporate income taxes (a tax rate of less than 1% on $8.75 billion, we note).

Deadbeat corporations also take advantage of the taxpayers. For example, forestry companies that signed contracts to purchase government timber at a set price in the mid-1980s and then defaulted owe the U.S. treasury $135.6 million. The corporations claim that they are justified in breaching the contracts because of falling lumber prices. But there's no reason why taxpayers should have to protect companies in pursuit of profits from normal business risks.

Major pharmaceutical companies are on the federal dole too. While the government pays for a substantial portion of the research in developing new drugs to fight disease, private drug makers are provided exclusive rights to market and profit from them. U.S. taxpayers had spent $32 million over 15 years to develop Taxol, an anti-cancer drug. Bristol- Myers Squibb was provided extensive government data and exclusive commercial rights to Taxol in 1991 at which time it began charging patients $986 for a three-week's supply.

This year, taxpayers will spend $51 billion in direct subsidies to corporations and lose another $53.3 billion in tax breaks for corporations, according to the Office of Management and Budget and Congress's Joint Committee on Taxation. This $104.3 billion give-away to businesses contrasts with the $75.1 billion total cost of all federal welfare programs for individuals, including help for the blind and deaf, drug and alcohol treatment, assistance to the handicapped and elderly, care for the mentally retarded, children's vaccination and immunization programs, food stamps (50% of which go to children[4]), and so on.[5] Our federal welfare programs favor corporations more than people.

Not all subsidies are bad, says PPI. Some subsidies and regulations serve compelling social purposes. PPI argues that the need for economic growth does NOT dictate, as many so-called "conservatives" suggest, that government should stop supporting childhood immunization, end tax incentives for middle-class home ownership or suspend health and safety regulation.[2, pg. 3] These are government programs intended to promote social goals that benefit everyone, not a wealthy few. Such programs are needed to compensate for market failures. There are other programs in this category as well. For example, federal spending to protect bank depositors, and tax incentives for basic research, compensate for failures of the free market.

In January, Congress will immediately begin debating these issues, which will have a profound influence on environmental policy. It seems doubtful that either the Republicans or the Democrats will be willing to cut corporate welfare. After all, the corporations ante up the hundreds of millions of dollars needed to win elections. Until we get corporations out of our elections entirely, we probably will not be able to end corporate welfare. As citizen activists, we can achieve clarity about one thing: our chief adversary is the corporate form, which has poisoned much of our land and water, harmed our health, polluted our politics, hijacked our democracy, and diminished our common wealth. In times like these, when most news media rarely focus on core issues, such clarity is a blessing. Happy New Year!

--Peter Montague

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[1] Jason DeParle, "Census Sees Falling Income and More Poor," NEW YORK TIMES October 7, 1994, pg. A16. A family of four is defined as "poor" if their income falls below $14,763.

[2] Robert J. Shapiro, CUT-AND-INVEST TO COMPETE AND WIN [Policy Report No. 18] (Washington, D.C.: Progressive Policy Institute, [518 C St., N.E., 20002; phone (202) 547-0001], 1994).

[3] Our examples are taken from James P. Donahue, "The Fat Cat Freeloaders," WASHINGTON POST March 6, 1994, pg. C1.

[4] Associated Press, "U.S. Study Shows Half of Food-Stamp Recipients Are Children," NEW YORK TIMES November 25, 1994, pg. A25.

[5] James P. Donahue, AID FOR DEPENDENT CORPORATIONS (AFDC) (Washington, D.C.: Essential Information, 1994), lists and tallies up federal welfare programs for corporations and for individuals.

Descriptor terms: robert reich; corporations; welfare; corporate welfare; anxious class; economy; economic growth; education; poverty; jobs; over class; progressive policy institute; democratic leadership council; grazing fees; public lands; bureau of land management; usda; market promotion program; logging; forestry; pharmaceuticals; subsidies; elections; money in politics;

Rachel's Environment & Health News is a publication of the Environmental Research Foundation, P.O. Box 160, New Brunswick, NJ 08903-0160; Phone: (732) 828-9995; Fax (732) 791-4603; E-mail: erf@rachel.org; http://www.rachel.org. Unless otherwise indicated, Rachel's is written by Peter Montague.