

Issue Brief

JULY 20, 2021

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Wasteful Corporate Subsidy Programs Should be Eliminated

In early June, the Senate passed the US Innovation and Competition Act (USICA) to provide [\\$250 billion](#) in taxpayer subsidies for new technological markets such as quantum computing, artificial intelligence, and semiconductor production.¹ As NTUF's Bryan Riley argued, the bill is "[largely unnecessary and counterproductive](#)."² Senator Bernie Sanders (I-VT), not one to shy away from massive spending proposals, voted against the bill, slamming it as [corporate welfare](#).³

Sanders' grounds for opposition act as a reminder that there are similar corporate welfare spending programs in the budget. These programs are longstanding and reap narrow benefits or, even worse, no measurable benefit at all. Eliminating programs such as the Hollings Manufacturing Extension Program, Economic Development Administration, and the Rural Business-Cooperative Service would save taxpayers nearly \$6.5 billion over the decade.

¹ Franck, Thomas. "Senate passes \$250 billion bipartisan tech and manufacturing bill aimed at countering China." *CNBC*. Retrieved from: <https://www.cnbc.com/2021/06/08/senate-passes-bipartisan-tech-and-manufacturing-bill-aimed-at-china.html>.

² Riley, Bryan. "Needless Frontier Act: The United States Should Avoid Costly Innovation Mistakes." *National Taxpayers Union*. May 21, 2021. Retrieved from: <https://www.ntuf.org/publications/detail/needless-frontier-act-the-united-states-should-avoid-costly-innovation-policy-mistakes>.

³ Bolton. Alexander. "Sanders slams Schumer plan to boost semiconductor industry." *The Hill*. Retrieved from: <https://thehill.com/homenews/senate/555112-sanders-slams-schumer-plan-to-boost-semiconductor-industry>.

Key Facts:



Senator Sanders voted against the recently passed \$250 billion US Innovation and Competition Act, calling it "corporate welfare."



The federal budget already has several ineffective programs providing corporate welfare and putting taxpayers on the hook for billions of dollars for activities that should be privately supported.



Terminating programs like the Manufacturing Extension Program, the Economic Development Administration, and the Rural Business-Cooperative Service would save \$6.5 billion over the decade.

Hollings Manufacturing Extension Program (MEP)

The Hollings Manufacturing Extension (MEP) [was established in the 1988 Omnibus Trade and Competitiveness Act](#).⁴ The MEP is a part of the National Institute of Standards and Technology (NIST) in the Department of Commerce. The latest federal budget document describes the MEP as “a national network of federal, state, and industry partnerships that provide U.S. manufacturers with access to technology, resources, and industry experts.” In other words, it provides consultation and money to manufacturers in the private sector.

Congress appropriated \$157 million to MEP for FY 2021. Nearly [86 percent](#) of its budget provides direct support to companies in the forms of grants and subsidies.⁵ If MEP funding were to continue at these levels, or continue to increase, a billion dollars would easily be spent on direct support funding.

But MEP’s mission is flawed. Providing corporate welfare is not the role of the government, especially with a [\\$3 trillion deficit](#).⁶ The government should not be in the business of playing venture capitalist in open markets. Moreover, there are plenty of trade associations and private firms that provide consultation and business advice without taxpayer funding. Companies that receive consulting with the expectation of increasing their profits should pay this service, not taxpayers.

Efforts to scale back the MEP date back to at least 2006 when President George W. Bush proposed to cut its grant funding in half. The Bush administration [argued](#), “In principle, firms should be willing to pay for consulting services that increase their profitability.”⁷ Last year’s [Toward Common Ground](#) report jointly released by NTUF and the U.S. PIRG Education Fund, recommended ending the program, noting that “businesses should not receive development funds or advice from the government.”⁸

Based on its current funding levels, terminating the Hollings MEP would save taxpayers \$1.57 billion over the next decade.

Economic Development Administration (EDA)

The Economic Development Administration, also a part of the Commerce Department, [claims to be](#) “the only federal government agency with a mission and programs focused exclusively on economic development.”⁹ Created in 1965 by the Public Works and Economic Development Act, the EDA is a taxpayer-funded program that provides money to public and private projects in economically distressed areas.

There have been many concerns raised about the EDA during its lifetime, including a report from the EDA itself that “[found no sustained benefit](#)” of its programs.¹⁰ According to the Congressional Research Service, the program’s authorization expired in 1982. However, [it was kept alive through appropriations bills](#), despite attempts made by Presidents Reagan and H.W. Bush to abolish the agency.¹¹ Both presidents argued that the EDA’s activities were limited in scope and that the projects it funded should instead be supported by state and local governments.

⁴ Congressional Research Service. (2021). *The Hollings Manufacturing Extension Partnership Program*. Retrieved from: <https://www.everysreport.com/reports/R44308.html>.

⁵ Department of Commerce. (2021). *National Institute of Standards and Technology, National Technical Information Service, Fiscal Year 2022 Budget Submission to Congress*. Retrieved from: https://www.commerce.gov/sites/default/files/2021-06/fy2022_nist_congressional_budget_justification.pdf.

⁶ Congressional Budget Office. (2021). *An Update to the Budget and Economic Outlook: 2021 to 2031*. Retrieved from: <https://www.cbo.gov/publication/57218>.

⁷ Office of Management and Budget. (2005). *Major Savings and Reforms in the President’s 2006 Budget*. Retrieved from: <https://www.govinfo.gov/content/pkg/BUDGET-2006-SAVINGS/pdf/BUDGET-2006-SAVINGS.pdf>.

⁸ Brady, Demian and Cross, R.J. *Toward Common Ground 2020: Bridging the Political Divide with Deficit Reduction Recommendations for Congress*. National Taxpayers Union Foundation and U.S. PIRG Education Fund. April 23, 2020. (2020). Retrieved from: <https://www.ntu.org/publications/page/toward-common-ground-bridging-the-political-divide-with-deficit-reduction-recommendations-for-congress>.

⁹ Office of Management and Budget. (2021). *Appendix, Budget of the U.S. Government*. Retrieved from: <https://www.govinfo.gov/content/pkg/BUDGET-2022-APP/pdf/BUDGET-2022-APP.pdf>.

¹⁰ Edwards, Chris and DeHaven, Tad. “Economic Development Administration.” *Downsizing the Federal Government*. (April 2, 2018). Retrieved from: <https://www.downsizinggovernment.org/commerce/eda>.

¹¹ Edwards, Chris and DeHaven, Tad. “Economic Development Administration”. *Downsizing the Federal Government*. (April 2, 2018). Retrieved from: <https://www.downsizinggovernment.org/commerce/eda>.

During the 104th Congress (1995-1996), there were three amendments considered in the House that would have terminated the program, but after these failed, the program was reauthorized in 1998 during the 105th Congress. Its authorizations [expired again in 2008](#), yet it lives on among the 400-plus [zombie programs](#) currently receiving funding despite lapsed authorizations.¹²

Problems have persisted with the agency. The Competitive Enterprise Institute (CEI) [detailed wasteful EDA spending that failed to create economic growth](#).¹³ In President Obama's FY 2012 budget, he sought to [eliminate](#) one of the EDA's programs, Trade Adjustment Assistance for Firms, pointing to concerns about the program's effectiveness and administrative costs.¹⁴ Later, Obama also sought to [reduce](#) funding for EDA's public works grant program.¹⁵ President Trump's [budget](#) aimed to eliminate EDA altogether to reduce duplicative programs and wasteful spending.¹⁶

Presidents Reagan, Bush, Obama, and Trump might not agree on a whole lot, but they all targeted the EDA for either reduction or outright elimination. Four different administrations, spanning time and the political spectrum, all agree that there are problems with the EDA and *that is saying something*.

The EDA should have been eliminated 40 years ago. Even its own studies show that it has a negligible impact. It should not be the government's role to pick winners and losers in the marketplace. To [quote Reagan's EDA head](#), Orson Swindle, "The minute politics enters the equation, rational financial management and economic decision making goes out the window."¹⁷

Congress authorized the EDA to spend [\\$305.5 million](#) for each of FY 2021 and FY 2022.¹⁸ It also received additional appropriations from the CARES Act and other supplemental spending laws amounting to \$745 million for this year. Earlier this year, the American Rescue Plan Act provided an additional \$3 billion to the EDA that will be spent over the next few years.

Based on its current base funding level, terminating the EDA would save at least \$3.055 billion over the next ten years. Savings would be higher if the additional supplemental funding is also rescinded.

Rural Business-Cooperative Service (RBCS)

There are currently more than 80 programs across 16 federal agencies targeting economic development in rural areas. One of these, the Rural Business-Cooperative Service is a loan and grant program established in the Federal Crop Insurance Reform and the Department of Agriculture Reorganization Act of 1994. It is administered in the Department of Agriculture's Rural Development section. [In practice](#), the RBCS "provides loans and grants to help local entrepreneurs in starting up businesses and in expanding existing businesses" in order to assist in job creation.¹⁹

A 1999 Government Accountability Office (GAO) [report](#), *Rural Business-Cooperative Business Loan Losses*, explored how the RBCS Guaranteed Business and Industry Loan Program accrued over "\$24 million in

¹² Congressional Budget Office. (January 15, 2021). *Expired and Expiring Authorizations of Appropriations for Fiscal Year 2021 - Information for Legislation Enacted Through December 23, 2020*. Retrieved from: <https://www.cbo.gov/publication/56959>. Brady, Demian. "They're Alive! - Congress Increases Outlays for Expired, Zombie Spending Programs". *National Taxpayers Union Foundation*. (May 12, 2021). Retrieved from: <https://www.ntu.org/foundation/detail/theyre-alive-congress-increases-outlays-for-expired-zombie-spending-programs>.

¹³ Bier, David. "The EDA Elimination Act : To Terminate the Economic Development Administration". Competitive Enterprise Institute. (October 6, 2011). Retrieved from: <https://cei.org/blog/the-eda-elimination-act-to-terminate-the-economic-development-administration/>.

¹⁴ Office of Management and Budget. (2011). *Fiscal Year 2012 Terminations, Reductions, and Savings*. Retrieved from: <https://www.govinfo.gov/content/pkg/BUDGET-2012-TRS/pdf/BUDGET-2012-TRS.pdf>.

¹⁵ Boyd, Eugene. Congressional Research Service. (July 29, 2016). *Economic Development Administration: FY 2016 Appropriations*. Retrieved from: <https://fas.org/sgp/crs/misc/R44112.pdf>.

¹⁶ Office of Management and Budget. (2021). *A Budget for America's Future, Major Savings and Reforms*. Retrieved from: <https://www.govinfo.gov/content/pkg/BUDGET-2021-MSV/pdf/BUDGET-2021-MSV.pdf>.

¹⁷ Edwards, Chris and DeHaven, Tad. "Economic Development Administration." *Downsizing the Federal Government*. (April 2, 2018). Retrieved from: <https://www.downsizinggovernment.org/commerce/eda>.

¹⁸ Department of Commerce. (2021). *United States Department of Commerce, Economic Development Administration, Fiscal Year 2022, Congressional Budget Request*. Retrieved from: https://www.commerce.gov/sites/default/files/2021-05/fy2022_eda_congressional_budget_justification.pdf.

¹⁹ Congressional Research Service. (2021). *An Overview of USDA Rural Development Programs*. Retrieved from: <https://www.everycrsreport.com/reports/RL31837.html#Toc443038108>.

net losses.”²⁰ The program allowed start-ups to apply for loans but RBCS approved loans without taking the necessary steps to fully evaluate the risks involved. GAO also reported that agency employees felt they were under pressure to allocate all available funds. Unfortunately, their negligence led to these losses paid for by taxpayers.

This example combined with the numerous overlapping programs highlights two things. First, as noted above, this program is redundant. Second, like the other two listed, its mission is fundamentally flawed. If people want to start a business, the private sector should take on the risk, not taxpayers.

According to data available in the Department of Agriculture’s [budget summary](#), the RBCS is authorized to spend \$184 million this year (excluding supplemental CARES Act funding), down from \$320 last year.²¹ However, more detailed data in the [Budget Appendix](#) shows that the program incurred net outlays of \$119 million in 2020 and is expected to cost \$599 million this year (both figures include offsetting receipts from fees and repayments).²² Given the nature of the numerous loan programs administered by the RBCS, there is often a wide difference between authorization levels and outlays for a given year. The Biden administration proposes to boost its FY 2022 budget outlay total to over \$1 billion.

Based on current authorized funding levels, terminating the Rural Business-Cooperative Service would save taxpayers \$1.84 billion over the decade.

Conclusion

In the wake of the COVID-19 pandemic and President Biden’s \$6 trillion budget proposal, initiatives such as USICA ought to raise concern. Congress should work to root out waste like this before it launches billions in new subsidies.

The programs listed above are just a few examples of how the government continues to mishandle taxpayer dollars, at great cost. Repealing these examples of corporate welfare would protect taxpayers from risky loans and take a very small first step in addressing our massive budget deficit.

Additional savings ideas can be found in NTU Foundation’s and U.S. Public Interest Research Group Education Fund’s *Toward Common Ground 2020* report, which identified more than \$790 billion in savings, including terminating the MEP and the EDA.

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²⁰ Government Accountability Office. (1999). Rural Development: Rural Business-Cooperative Service Business Loan Losses. Retrieved from: <https://www.gao.gov/products/rced-99-249>.

²¹ Office of Management and Budget. (2021). *Appendix, Budget of the U.S. Government Fiscal Year 2022*. Retrieved from: <https://www.govinfo.gov/content/pkg/BUDGET-2022-APP/pdf/BUDGET-2022-APP.pdf>.

²² Office of Management and Budget (2021). *Appendix: Budget of the U.S. Government Fiscal Year 2022*. Retrieved from: https://www.whitehouse.gov/wp-content/uploads/2021/05/agr_fy22.pdf.



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