THE CORPORATE WELFARE REFORM COMMISSION ACT

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, JUNE 8, 2000

Serial No. 106–11

Printed for the use of the Committee on the Budget

U.S. GOVERNMENT PRINTING OFFICE

64–901cc WASHINGTON : 2000

COMMITTEE ON THE BUDGET

JOHN R. KASICH, Ohio, *Chairman*

SAXBY CHAMBLISS, Georgia,
Speaker's Designee
CHRISTOPHER SHAYS, Connecticut
WALLY HERGER, California
BOB FRANKS, New Jersey
NICK SMITH, Michigan
JIM NUSSLE, Iowa
PETER HOEKSTRA, Michigan
GEORGE P. RADANOVICH, California
CHARLES F. BASS, New Hampshire
GIL GUTKNECHT, Minnesota
VAN HILLEARY, Tennessee
JOHN E. SUNUNU, New Hampshire
JOSEPH PITTS, Pennsylvania
JOE KNOLLENBERG, Michigan
MAC THORNBERRY, Texas
JIM RYUN, Kansas
MAC COLLINS, Georgia
ZACH WAMP, Tennessee
MARK GREEN, Wisconsin
ERNIE FLETCHER, Kentucky
GARY MILLER, California
PAUL RYAN, Wisconsin
PAT TOOMEY, Pennsylvania

JOHN M. SPRATT, Jr., South Carolina,
Ranking Minority Member
JIM McDERMOTT, Washington,
Leadership Designee
LYNN N. RIVERS, Michigan
BENNIE G. THOMPSON, Mississippi
DAVID MINGE, Minnesota
KEN BENTSEN, Texas
JIM DAVIS, Florida
ROBERT A. WEYGAND, Rhode Island
EVA M. CLAYTON, North Carolina
DAVID E. PRICE, North Carolina
EDWARD J. MARKEY, Massachusetts
GERALD D. KLECZKA, Wisconsin
BOB CLEMENT, Tennessee
JAMES P. MORAN, Virginia
DARLENE HOOLEY, Oregon
KEN LUCAS, Kentucky
RUSH D. HOLT, New Jersey
JOSEPH M. HOEFFEL III, Pennsylvania
TAMMY BALDWIN, Wisconsin

PROFESSIONAL STAFF

WAYNE T. STRUBLE, *Staff Director*
THOMAS S. KAHN, *Minority Staff Director and Chief Counsel*

CONTENTS

THE CORPORATE WELFARE REFORM COMMISSION ACT

THURSDAY, JUNE 8, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 12 noon in room 210, Cannon House Office Building, Hon. John R. Kasich (chairman of the committee) presiding.

Members present: Representatives Kasich, Gutknecht, Sununu, Knollenberg, Ryan of Wisconsin, Collins, McDermott, Rivers, Bentsen, Lucas, Holt, and Hoeffel.

Chairman KASICH. The committee will come to order.

Today, we are just going to hear from a couple of witnesses, and I think a panel on the issue of corporate welfare defined, at least by me, as a program that benefits a special interest without accruing to benefit the general public. We are lucky today to have Ed Royce, Mr. Sanders; and then there will be a second panel that we can get to later.

Mr. Hoeffel actually asked me whether we could have a hearing, because he has a bill on creating a commission and asked whether we could do a hearing. I said we could, and, voila, here it is. So if the gentleman would like to make a couple of comments, that is fine, but I think we want to get going, because we are going to have votes here, and I would like Mr. Royce to be able to get his testimony in, if he can.

Mr. Hoeffel, you are recognized.

Mr. HOEFFEL. Thank you, Mr. Chairman, and thank you for holding this hearing, keeping your word to do so, and thank you for 20 years of leading the charge to try to eliminate corporate welfare.

The legislation that the chairman has cosponsored with 28 other members, my bill, H.R. 3221, would create a commission to study corporate welfare, to make recommendations to the House and Senate, and would require—after the ability to amend by the members on the floor of the House and Senate, would require a vote by the Congress on such recommendations.

As we talked yesterday, Mr. Chairman, one man's corporate welfare is another man's desperately needed government program, and—I guess we are being summoned right now.

Chairman KASICH. Why don't you go ahead?

Mr. HOEFFEL. The reality is these direct frontal assaults that we have made in the past on individual programs are worthy. I want to join the Chair in pursuing some of those amendments on the appropriations bills this year, but I think we also need a mechanism for dealing with these problems.

In fact, in 1998, the budget resolution contained a recommendation that a commission be formed to create a fast-track process to consider recommendations to eliminate corporate welfare. I think that it is time to do that.

I welcome the chairman's interest in this. I think it is time, if Congress can reform welfare, which we have done, that we also ought to be willing to reform corporate subsidies that are wasteful, that allow unfair competitive advantages or financial windfalls, and cost more to the taxpayer than any public benefit that results.

So I look forward to hearing the testimony of the witness.

Thank you, Mr. Chairman.

Chairman KASICH. I want to recognize Mr. Royce. Ed, how long is your statement?

Mr. ROYCE. I am going to be brief enough that you can make this vote.

Chairman KASICH. OK. I want to recognize Mr. Royce, who has been a leader in the effort to try to rein in some of the subsidies, particularly the Overseas Private Investment Corporation. Ed, you are recognized for whatever statement you may make.

STATEMENT OF THE HON. EDWARD R. ROYCE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. ROYCE. Thank you for your leadership on this issue, as well. Let me just make a couple of observations.

One is that the Federal Government spends about $65 billion each year on programs that provide subsidies basically to private businesses, and this is a huge drain on the Federal Treasury at a time when the impending Social Security crisis looms closer.

Our current national debt problem pales by comparison to the some $19.8 trillion in unfunded liabilities already committed to current and future Social Security recipients, and if these subsidies, really corporate welfare, were eliminated entirely over the next 5 years, we could save over $300 billion. That would provide some of the resources necessary to find a long-term solution to our Social Security crisis.

In addition, government has no business favoring certain companies with tax breaks and with subsidies at the expense of others. The free market is there to allocate resources in the most efficient way possible. Federal involvement only serves to distort the marketplace. By giving selected businesses special advantages, corporate subsidies put other businesses that are less politically well-connected at a disadvantage.

Corporate welfare has led to the creation of what some have termed the "statist businessman" who has been converted from capitalist to capital lobbyist. Furthermore, corporate welfare is anticonsumer. For example, the sugar subsidy costs Americans billions of dollars a year in higher prices.

The sugar program is an affront to the American consumer whose tax dollars are diverted to prop up a select group of producers through an ill-conceived government policy. Price controls and import quotas are used to keep the price of sugar artificially high, thereby doing great harm to American consumers and much of the domestic sugar industry. The sugar program unfairly guarantees sugar producers a minimum price for their product. The U.S. Department of Agriculture secures loans for processors using sugar as collateral. This allows producers to simply forfeit their sugar rather than repay the loan. Therefore, it is in the USDA's interest to keep the price floor for sugar as high as possible to allow producers to profit. Otherwise, processors will opt for forfeiture, leaving the USDA with unprocessed sugar.

Unfortunately, for consumers, this means keeping the price for sugar well above the open market price. Is that what our constituents back home sent us to Washington to do?

As you may know, in 1997, I joined a coalition of members and citizens groups from across the political spectrum to target "corporate welfare" programs for elimination. The coalition is called the Stop Corporate Welfare Coalition. It features Members of Congress, including you, Mr. Chairman, and taxpayer groups like Americans for Tax Reform, and "watchdog" organizations like Citizens Against Government Waste, as well as environmental and consumer groups.

The programs we target provide businesses, usually big and politically well-connected ones, with subsidies, financial underwriting and other support. Each program has a constituency and each has powerful interests supporting it.

I endorse and support companies, by the way, in their efforts to expand and compete globally. I have always worked to lessen the burden of regulation and taxation on American businesses. I just believe private businesses should earn money through the marketplace, not through taxpayer subsidies.

Every year, Congress must approve 13 appropriations bills which fund the government and every corporate welfare program. I, along with Chairman Kasich and others have been working to end corporate welfare programs. The Stop Corporate Welfare Coalition has had some legislative successes. We have cut timber roads funding, the International Monetary Fund New Agreements to Borrow requested by President Clinton were denied, and we have also reduced fossil fuel subsidies.

The Coalition has also brought the country's attention to the process of using taxpayer money for private gain. But more needs to be done.

Mr. Hoeffel's bill will create a Corporate Welfare Commission, an independent body that would focus our priorities and raise public awareness on this issue. In the last Congress I introduced a bill to establish a government waste commission, and I am currently working on a bill for this Congress. So I recognize the need and the value of a commission to provide for increased accountability and rein in wasteful government spending.

As T.J. Rogers said in testimony before the Senate a few years ago—and I want to submit that testimony for the record; he has also testified before the House before. It is one of the most cogent and well-thought-out programs that I have read, it is called Declaration of Independence, end corporate welfare. T.J. Rogers, as you might know, is CEO of Cypress Semiconductor Corporation. As he says, "The best way to shut down corporate welfare is to have a yes or no vote on a package of corporate subsidies identified for elimination by an independent commission, as we did in the military downsizing. CEO's would support a fair package proposal to cut corporate subsidies."

He did this work in tandem with many CEO's from the Silicon Valley, who have a history of knowing how to create real wealth in the economy.

So I really urge every member attending today to please get a copy of what we will submit, but most importantly, this oversight of government management by T.J. Rogers, his "declaration of independence" to end corporate welfare.

The best thing the government can do to promote economic growth is to get out of the way. Let entrepreneurs and the mechanisms of the marketplace determine how the economy's resources will be directed. Terminating corporate welfare programs and reforming the Tax Code are necessary to level the playing field and reduce government interference.

In conclusion, private industry can flourish without corporate welfare. Just as Congress has weaned many families off of welfare, it can do the same for corporations. We can stop subsidizing corporations and focus our efforts on real needs and on the things that we in Congress need to be planning for the long term.

Chairman Kasich, more than anybody else, I want to thank you for leading the effort to do exactly that.

[The prepared statement of Mr. Royce follows:]

PREPARED STATEMENT OF HON. EDWARD R. ROYCE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Thank you, Mr. Chairman, for giving me the opportunity to speak here today.

The Federal Government spends about $65 billion each year on programs that provide subsidies to private businesses. This is a huge drain on the Federal treasury at a time when the impending Social Security crisis looms closer. Our current national debt problem pales in comparison to the $19.8 trillion in unfunded liabilities already committed to current and future Social Security recipients. If these tax subsidies, really corporate welfare, were eliminated entirely, over the next 5 years we could save over $300 billion. This would provide some of the resources necessary to find a long-term solution to our Social Security crisis.

In addition, government has no business favoring certain companies with tax breaks and subsidies. The free market is there to allocate resources in the most efficient way possible. Federal involvement only serves to distort the marketplace. By giving selected businesses special advantages, corporate subsidies put other businesses that are less politically well-connected at a disadvantage. Corporate welfare has led to the creation of what some have termed the "statist businessman," who has been converted from capitalist to Capitol lobbyist.

Furthermore, corporate welfare is anti-consumer. For example, the sugar subsidy costs Americans billions of dollars a year in higher prices. The sugar program is an affront to the American consumer, whose tax dollars are diverted to prop up a select group of producers through an ill-conceived government policy. Price controls and import quotas are used to keep the price of sugar artificially high, thereby doing great harm to American consumers and much of the domestic sugar industry.

The sugar program unfairly guarantees sugar producers a minimum price for their product. The U.S. Department of Agriculture secures loans for processors using sugar as collateral. This allows producers to simply forfeit their sugar rather than repay the loan. Therefore, it is in the USDA's interest to keep the price floor for sugar as high as possible to allow producers to recoup their costs. Otherwise processors will opt for forfeiture, leaving the USDA with unprocessed sugar.

Unfortunately, for consumers, this means keeping the price for sugar well above the open market price. Is this what our constituents back home sent us here to Washington to do?

Corporate welfare is also unconstitutional. Our Founding Fathers envisioned a limited government. The Constitution was written to enumerate specific powers for a reason. Corporate subsidies are outside Congress's limited spending authority under the Constitution. Nowhere in this document does it grant Congress the authority to subsidize industry.

As you may know, in 1997, I joined a coalition of members and citizens groups from across the political spectrum to target "corporate welfare" programs for elimination.

The coalition is called the Stop Corporate Welfare Coalition and it features Members of Congress, including you Chairman Kasich, taxpayer groups like Americans for Tax Reform, and "watch-dog" organizations like Citizens Against Government Waste. The programs we target provide businesses—usually big and politically well-connected ones—with subsidies, financial underwriting, and other supports. Each program has a constituency and each has powerful interests supporting it.

Don't get me wrong. I endorse and support companies in their efforts to expand and compete globally. I have always worked to lessen the burden of regulation and taxation on American business. I just believe that private businesses should earn money through the marketplace, not through taxpayer subsidies.

Every year, Congress must approve 13 appropriation bills, which fund the government and every corporate welfare program. I, along with Chairman Kasich and others, have been working to end corporate welfare programs.

The Stop Corporate Welfare Coalition has had some legislative successes. We have cut timber roads funding, the International Monetary Fund New Agreements to Borrow that were requested by President Clinton were denied, and we have also reduced fossil fuel subsidies. The Coalition has also brought to the country's attention to the practice of using taxpayer money for private gain. But more needs to be done.

Mr. Hoeffel's bill would create a Corporate Welfare Commission, an independent body that would focus our priorities and raise public awareness on this issue.

The best thing government can do to promote economic growth is get out of the way. Let entrepreneurs and the mechanisms of the marketplace determine how the economy's resources will be directed. Terminating corporate welfare programs and reforming the tax code are necessary to level the playing field and reduce government interference.

The business world can flourish without corporate welfare. Just as

Congress has weaned many families off welfare, it can do the same for corporations. We can stop subsidizing corporations and focus our efforts on real needs.

Thank you.

Chairman KASICH. Thank you. Questions for Mr. Royce?

Mr. HOEFFEL. Congressman Royce, one question: You spoke favorably of a commission approach that would have a series of recommendations with a take-it-or-leave-it, single up-or-down vote. Senator McCain had a similar proposal in the Senate.

My version is a little different. It would still allow members to amend the recommendations on the floor.

Can you comment briefly on the two versions?

Mr. ROYCE. Having talked with Dick Armey about this as we were attempting to craft legislation on it, one of the most important elements, in his view, of the Base Closure Commission was the fact that it was a sole package.

In terms of the CEO's in Silicon Valley that sat down with T.J. Rogers to prepare his analysis, they felt the same thing, that in point of fact we needed to take an approach where we combined all of the corporate welfare programs and offered them up at one time. Otherwise, there was too much incentive to basically logroll and trade off votes, to eliminate one program in exchange for somebody else eliminating another program that—basically to present before the public one complete set of work that would give the maximum potential; and I will let you read his analysis. But for members to vote up or down on corporate welfare per se, that would focus the attention on one vote and would focus the pressure.

As people like to say, when they feel the heat, they will see the light, and this is the way to bring the heat, one vote.

Chairman KASICH. I want to thank you for your testimony, Mr. Royce.

What we are going to do is break for a vote, come back and get our panel. So if the gentlelady and the two people that I see that are here for the panel will just be patient, we will be back very soon.

And thank you for your testimony, Mr. Royce.

[Recess.]

Mr. RYAN OF WISCONSIN [presiding]. The committee will come to order. We are going to get started; we have a quorum.

We will first announce Panel II: Jill Lancelot, Cofounder of Taxpayers for Common Sense; Steve Moore—I believe Steve is on his way over here, is an Adjunct Fellow for the CATO Institute; Tom Schatz, President of Citizens Against Government Waste—good to see you, Tom. And Peter Sperry, Fellow, Federal Budgetary Affairs, Heritage Foundation, will be joining us on this panel.

STATEMENTS OF JILL LANCELOT, COFOUNDER, TAXPAYERS FOR COMMON SENSE; THOMAS A. SCHATZ, PRESIDENT, CITIZENS AGAINST GOVERNMENT WASTE; PETER SPERRY, FELLOW, FEDERAL BUDGETARY AFFAIRS, HERITAGE FOUNDATION; AND STEPHEN MOORE, ADJUNCT FELLOW, CATO INSTITUTE

Ms. RIVERS. Is it good to see all of the panel?

Mr. RYAN OF WISCONSIN. It is good to see every one of the panelists.

Jill, it is especially good to see you. I guess we will slot Steve Moore in when he gets here.

We will start with you, Jill, and go through, and when Steve comes, we will put him in on the end. Please enlighten us, Jill. We look forward to your testimony.

STATEMENT OF JILL LANCELOT

Ms. LANCELOT. Thank you very much, Mr. Congressman, Mr. Chairman. My name is Jill Lancelot, and I am Cofounder and Legislative Director of Taxpayers for Common Sense. We are a nonprofit, nonpartisan advocate for the American taxpayer. We are dedicated to cutting wasteful spending and subsidies in order to achieve a responsible and efficient government that lives within its means.

Again, we thank you for inviting us to testify once again and to present our views on corporate welfare to this committee. Today we are also here to comment on H.R. 3221, the Corporate Welfare Commission Act of 1999, which has been introduced by Representative Hoeffel.

Since the establishment of the lofty principles of representative governance for ensuring the Nation's common welfare, citizens have had to stand vigilant in preventing abuses of the system for the private gain of special interests. There always has been and, sadly, always will be the temptation to cater to special interests that are able to influence the system for their own welfare at the expense of taxpayers. Such is the case with corporate welfare.

In recent decades we have witnessed an extraordinary giveaway of billions of taxpayers' hard-earned dollars through what can only be termed "corporate welfare." simply defined, corporate welfare is having the tab for normal business expenses picked up by the Nation's taxpayers. While it is common business practice to use other people's money to grow an enterprise, this should occur only in the marketplace where the risks of gains or losses help investors determine the worthiness of a venture. It is not the role of government to bypass the rigors of the marketplace. Neither elected officials nor agency personnel are adept, let alone more insightful, in selecting market preferences or technology winners.

It is instructive to see what has happened in the past 30 years. Who could have imagined that within 30 years since the defining of the Fortune 500, 238 firms on the list have disappeared, with another 143 firms disappearing just 5 years later? In every industry in which the market has been the basis of competition, dramatic change has taken place. In short, picking and choosing winners should be left to the market.

The practice of subsidizing an industry often props up that industry in incidences when it cannot sometimes compete on its own. Let's look at the nuclear industry.

Forty-three years ago the government stepped in with the Price-Anderson Indemnity Act, removing the rigors of the marketplace because the commercial nuclear industry said the risk of commercializing nuclear power was too high; $47 billion later and with no reactor orders since 1974, the government continues to subsidize the industry. In fact, just a year after the new program was funded, even though the year before the Science Committee declined to authorize that program, the industry stepped up its pressure, and today we have the Nuclear Energy Research Initiative, NERI. The NERI program is funded today with almost $50 million, a program that is actually already being carried out by the Nuclear Regulatory Commission. As an industry that has revenues in excess of $140 billion, does it really need the Nation's taxpayers paying for their duplicative research?

Taxpayers for Common Sense thinks not. In fact, we think the $35 million requested by the President this year is ripe for the Energy and Water Appropriation Budget Axe.

Let's look at the mining industry. We have all heard many times how the anachronistic mining law allows the hard rock mining industry to take precious metals, like gold and silver, absolutely free when they mine on taxpayer-owned land. However, taxpayers get shafted again. The industry leaves the taxpayer holding the bag for the toxic mess that they leave.

There are over half a million hard rock mines that have been abandoned that will cost taxpayers anywhere up to $72 billion to clean up. Moreover, reclamation bonding, which is the mechanism designed to address waste from currently operating mines, is woefully inadequate. The potentially unfettered liability of all operating mines in western States presently exceeds over $1 billion because current rules allow bonds to fall short of the full cost of cleanup.

Then there is the advanced technology program that I think I will leave others to talk about. I know that Citizens Against Government Waste will be addressing that program today. We too agree it is a program that should be eliminated.

So it is, I think, quite apparent that corporate welfare is alive and kicking, but fortunately, Representative Hoeffel and the chairman of this committee aim to do something about it, and we applaud that.

Representative Hoeffel has offered an innovative piece of legislation that could actually put an end to business as usual. Mr. Hoeffel's legislation creates a Corporate Welfare Commission that will examine and recommend to Congress a list of programs that would fall under the category of corporate welfare.

Taxpayers for Common Sense is pleased that Representative Hoeffel remains committed to eliminating corporate welfare as we know it and has fashioned a bill that provides a mechanism that will implement reform responsibly and quickly. We applaud Representative Kasich and this committee for once again tackling this issue of corporate welfare that so often is swept under the rug. We believe that this hearing and the legislation introduced by Representative Hoeffel will refocus the spotlight on this issue.

Thank you.

Mr. RYAN OF WISCONSIN. Thank you, Jill. I appreciate it.

[The prepared statement of Ms. Lancelot follows:]

PREPARED STATEMENT OF JILL LANCELOT, LEGISLATIVE DIRECTOR, TAXPAYERS FOR COMMON SENSE

My name is Jill Lancelot. I am cofounder and Legislative Director of Taxpayers for Common Sense (TCS). Taxpayers for Common Sense is a nonpartisan advocate for American taxpayers. We are dedicated to cutting wasteful spending and subsidies in order to achieve a responsible and efficient government that lives within its means.

Thank you, Mr. Chairman for inviting Taxpayers for Common Sense (TCS) to once again present our views on corporate welfare. Today we are also here to comment on H.R. 3221, the Corporate Welfare Commission Act of 1999, which has been introduced by Representative Hoeffel.

Since the establishment of the lofty principles of representative governance for ensuring the nation's common welfare, citizens have had to stand vigilant in preventing abuses of the system for the private gain of special interests. There always has been and, sadly, always will be the temptation to cater to special interests that are able to influence the system for their own welfare, at the expense of taxpayers. Such is the case with corporate welfare. In recent decades we have witnessed an extraordinary giveaway of billions of taxpayers' hard-earned dollars to corporate welfare.

Corporate welfare, simply defined, is having the tab for normal business expenses picked up by the nation's taxpayers. The free handout bypasses the rigors of the marketplace in determining the full risks and real worth of the business endeavor. While it is common business practice to use other people's money to grow an enterprise, this should only occur in the marketplace where the risks of gains or losses help investors determine the worthiness of a venture.

However, it is not the role of government to bypass the rigors of the marketplace. Neither elected officials nor agency personnel are adept, let alone more insightful, in selecting market preferences or technology winners. The market operates at a completely different pace, scale and complexity than government. It's instructive to see what has happened in the past thirty years. For example, who would or could have imagined that within 30 years since the defining of the Fortune 500, 238 firms on the list had disappeared, with another 143 firms disappearing just 5 years later! In every industry in which the market has been the basis of competition dramatic change has taken place. Fifty percent of the firms trying to compete in traditional modes have declined dramatically or disappeared within a decade. Of the 43 companies identified by Tom Peters and Robert Waterman as models for the new business age in their 1984 book, In Search of Excellence, only 12 remain in good shape; some have been disasters. Only 6 of the top 20 discount chains in 1980 were still in business in 1990. Clearly, picking and choosing winners is best left to the market.

Using Federal taxpayer dollars to subsidize private industry is not only unfair, but it distorts the market, reducing economic efficiency. The practice of subsidizing an industry often props up that industry in incidences when it cannot compete on its own.

NUCLEAR INDUSTRY

Beginning in the late 1950's, when the nuclear industry testified that the risk of commercializing nuclear power was too high, the government removed the rigors of the market with the passage of the Price-Anderson Nuclear Indemnity Act that subsidized the risk of major accidents. That legislation prematurely pushed the nuclear power industry into the market place.

Forty-three years and $47 billion dollars later and with no reactor orders since 1974, the government continues to subsidize this industry. And in fiscal year 1998, an historical event occurred in the appropriations process when Congress did not fund any direct subsidies for the industry. This was quickly reversed in fiscal year 1999 when Congress provided $19 million for the Nuclear Energy Research Initiative (NERI). Not only is this program duplicative of research already being conducted by the government's Nuclear Regulatory Commission, but with revenues in excess of $141 billion, this mature industry hardly requires hard-earned taxpayer dollars going to improve its profit margin.

MINING INDUSTRY

The granddaddy of all subsidies is the 1872 Mining Law that entitles the hardrock mining industry to take, free of charge, gold, silver, platinum and other precious metal found on public lands. In addition, the law allows these often multi-national corporations to take full title to mineral-rich lands for no more than $5.00 an acre.

Furthermore, mining companies all too often leave the American taxpayer to pay to clean up the waste created from mining operations. There are currently over a half million hardrock mines that have been abandoned that will cost taxpayers anywhere from $32 billion to $72 billion to clean up. Moreover, reclamation bonding—the mechanism designed to address waste from currently operating mines—is woefully inadequate. The potentially unfunded liability of all operating mines in western States presently exceeds over a billion dollars because current rules allow bonds that fall short of the full costs of cleanup.

For example, in Nevada 29 mine sites have been left unreclaimed by mining companies that have declared bankruptcy. According to the Department of the Interior it will cost $60–100 million to clean up just one of those sites. In Montana, a company walked away from a gold mine and although it left the State with a $60 million reclamation bond, it is far short of the $180 million cost estimate of cleanup.

THE ADVANCED TECHNOLOGY PROGRAM

The Advanced Technology Program (ATP) was created in 1988 with the objective of ushering in new technological advancements by awarding support grants for research and development to various corporations and joint ventures. Though the program may have had a worthy objective, there is no proof that ATP subsidies are essential for encouraging investment in research and development. According to a March 1997 report by the Congressional Budget Office (CBO), almost half of ATP grants near-winners "continued their research and development projects despite a lack of ATP funding." And according to an April 2000, General Accounting Office report, three completed ATP-funded projects, which were approved for funding in 1990 and 1992, addressed similar research goals to those already funded by the private sector. Some of the recipients of these funds have been major corporations such as General Electric, Xerox, Dupont, Caterpiller, and United Airlines. Surely these wealthy companies do not need any hard-earned taxpayer dollars.

INLAND WATERWAYS SYSTEM

According to the Congressional Budget Office, inland navigation is the most highly subsidized mode of transportation in the United States. The benefits of this subsidized system go primarily to six corporate agribusinesses, who combined own more than 50 percent of U.S. barges.

Funded by a 20-cent per gallon tax on barge fuel, the Inland Waterways Trust Fund is supposed to pay 50 percent of new construction and major rehabilitation projects. However, the fund contributes nothing to projects authorized prior to 1986 and numerous other projects Congress exempts from normal cost-sharing rules. Despite the existence of a trust fund, the Federal Government collects less than $100 million per year in fuel taxes on barges, but pays out more than $800 million each year to expand and maintain the nation's sprawling waterways system.

Even with projects the navigation industry does contribute funds towards, fiscal accountability in project selection and project design are regularly absent. For example, the Port of New Orleans continues to push a $641 million dollar project to replace a single lock on the Industrial Canal. Project proponents state a new lock is required to accommodate large increases expected in barge traffic and reduce delay times. However, Army Corps of Engineers statistics show a 30 percent decrease in traffic since 1988. At the same time, barge delays have also declined. Much of this nation's senseless spending and subsidies are found in the inland navigation industry.

These are but a few examples of special interest, corporate welfare programs. Although Congress at various times has addressed the unfairness of corporate welfare, unfortunately very little has been done to correct these abuses. As Congress begins to tackle the annual appropriation bills it is an apt time to bring the grievances of corporate welfare to the forefront.

CORPORATE WELFARE REFORM COMMISSION ACT OF 1999

Representative Hoeffel has offered an innovative piece of legislation that could actually put an end to business as usual. Mr. Hoeffel's legislation creates a Corporate Welfare Commission that would establish a Congressional advisory commission to examine and recommend to Congress a list of programs that would fall under the category of corporate welfare. Although TCS has concerns that often times a commission can create the illusion of reform and give Congress something to hide behind, certainly the Base Realignment and Closure Commission (BRAC) was a good idea and could be viewed as a model. It is important that the commission maintain its integrity with the least amount of political influence possible throughout a cradle-to-grave operation.

TCS is pleased that Representative Hoeffel remains committed to eliminating corporate welfare as we know it and has fashioned a bill that provides a mechanism that will implement reform responsibly and quickly.

We applaud Representative Kasich and this Committee for once again tackling this issue of corporate welfare that so often is swept under the rug. We hope that this hearing and the legislation introduced by Representative Hoeffel will refocus the spotlight on this issue.

Mr. RYAN OF WISCONSIN. Mr. Schatz.

STATEMENT OF THOMAS A. SCHATZ

Mr. SCHATZ. Thank you very much, Mr. Chairman. I am Tom Schatz, the President of Citizens Against Government Waste. I am happy to be here this morning to once again speak about corporate welfare.

There has been some progress, certainly, over the years. We have rated through our lobbying operation, the Council for Citizens Against Government Waste, a number of votes on the floor of the House and Senate; and of course, last year the House Appropriations Committee saw fit to zero out funding for the Advanced Technology Program. We certainly hope that they will do the same this year, and that the Senate will follow suit.

While that is one of the major topics of my discussion today, I do want to point out that the preamble of our Constitution outlines the foundation of our government by stating its purpose to promote the general welfare. This is quite different than distributing selective benefits for the specific welfare of selected companies, organizations and individuals.

Thomas Jefferson noted that the policy of the American government is to leave their citizens free, neither restraining them nor aiding them in their pursuits. Jefferson's words have never been more true than when looking at special interest business subsidies or, as many call it, corporate welfare. The government takes our tax dollars and redistributes a portion of it to those who can find money elsewhere or who often don't need it at all.

There are many agencies that house these business subsidy programs, but the most notorious is the Department of Commerce. It has been described by its own Inspector General as a loose collection of more than 100 programs delivering services to about 1,000 customer bases. The General Accounting Office says the Department has the most complex web of divided authorities and shares missions with at least 71 Federal departments and agencies.

More than $609 million was spent last year by three of the Department's many subsidy programs: the Advanced Technology Program, the Economic Development Administration, and the Manufacturing Extension Partnership. These funds and similar government handouts penalize successful companies by forcing them to subsidize their competition.

For example, a few years ago, a company had developed video compression technology after years of its own investment and research and development. This new technology promises to reshape picture transmission for television, computers and the Internet. Once the technology began to take off and the company started to make a profit, the Department of Commerce funded one of the company's competitors through the Advanced Technology Program in order to develop the exact same technology.

Defenders of these subsidies claim that they are necessary because the programs that they fund are not adequately pursued by private investors due to their high degree of risk. T.J. Rogers, who was quoted by Congressman Royce earlier, said that the high risk argument used by the Department of Commerce is usually justification to subsidize poor investments. He emphasizes that the important evaluation is the return on investment, not risk. Investments with a reasonable or low risk and a good return are enthusiastically supported by private investors because they are seen as a wise use of money. But investments with high risk and ordinary or low return are often given government subsidies.

High definition TV is a clear example of the failure of government technology handouts. Japan and France each spent more than $1 billion to develop this technology in the late 1980's, and they sought to use existing analog technology. Here in the United States, $1.2 billion in government subsidies was denied. In the absence of government handouts, American companies went on to develop an alternative technology with their own money. In the end, the Japanese and French adopted U.S. technology, which was done without any government help.

The $609 billion for ATP and the other Commerce Department programs is a lot of money, but it pales in comparison to investment in R&D in the private sector. According to the National Venture Capital Association, more than $38 billion was invested in high technology in 1999, so government subsidies amounted to slightly more than 1 percent of this amount. Clearly, the private sector is truly driving research and development in technology.

The appropriate way to enhance the competitiveness and productivity of American industry is to minimize government interference and to substantially reduce tax rates and regulatory burdens. The Silicon Valley venture capitalist, Tim Draper, said "Government subsidies, winners and losers selected by nonmarket forces, simply distort the market. It is not a waste; it is plain wrong. The government's job should be to let the market do its job."

Last year, when the House Appropriations Committee eliminated ATP, it said after many years in existence, the program has not produced a body of evidence to overcome these fundamental questions about whether the program should have existed in the first place. The report said, given the tremendous financial constraints under which the committee is operating, the question becomes whether it is worthwhile to continue to fund a program of questionable value, particularly when it costs over $200 million a year. The General Accounting Office has also weighed in on ATP with a report this past March.

Let me conclude by emphasizing Citizens Against Government Waste is not antibusiness. Industrialist J. Peter Grace, who founded CAGW, understood the importance of the private sector's leading role in the economy. CAGW supports a strong and vibrant economy based on the skills and sweat of entrepreneurs, not the arbitrary system of picking winners and losers by the Federal Government through special interest business subsidies.

Thank you for the opportunity to appear here today. I certainly look forward to answering any questions you may have.

[The prepared statement of Mr. Schatz follows:]

PREPARED STATEMENT OF THOMAS A. SCHATZ, PRESIDENT, CITIZENS AGAINST GOVERNMENT WASTE

Mr. Chairman, members of the committee, thank you for the opportunity to testify today. In particular, I would also like to thank Mr. Hoeffel for addressing the issue of corporate welfare with H.R. 3221. My name is Tom Schatz. I am the president of Citizens Against Government Waste (CAGW), a 600,000 member nonprofit organization dedicated to eliminating waste, fraud and abuse in government. Citizens Against Government Waste has never received any Federal grants and we do not wish to receive them at any time in the future.

CAGW was created 16 years ago after Peter Grace presented to President Ronald Reagan 2,478 findings and recommendations of the Grace Commission (formally known as the President's Private Sector Survey on Cost Control). These recommendations provided a blueprint for a more efficient, effective and smaller government.

Since 1984, the implementation of Grace Commission recommendations has helped save taxpayers more than $625.4 billion. CAGW has been working tirelessly to carry out the Grace Commission's mission to eliminate government waste.

The preamble of the Constitution outlines the foundation of our government by stating its purpose to "promote the general welfare." This is quite different than distributing selected benefits for the specific welfare of selected companies, organizations and individuals.

Thomas Jefferson articulated the premise of the Constitution and the genius of our political and economic system by noting that: "The policy of the American government is to leave their citizens free, neither restraining nor aiding them in their pursuits."

Jefferson recognized all things do not flow from a central government, nor does every conceivable human endeavor need a department to manage its activity or guarantee its continued vitality. Not only is it unnecessary, it's harmful.

Jefferson's words have never been more true than when looking at special interest business subsidies, or as it is more commonly known, corporate welfare. American taxpayers earn a living by creating wealth. The government then takes some of the wealth in the form of taxes and redistributes a portion of it to those who can find money elsewhere or who don't need it at all.

There are many agencies that house these business subsidies, but the most notorious is The Department of Commerce. The Department of Commerce is a classic example of a rudderless, ever-expanding bureaucracy. According to its own Inspector General, the department has evolved into "a loose collection of more than 100 programs delivering services to about 1,000 customer bases." The General Accounting Office says the Department has "the most complex web of divided authorities," and "shares missions with at least 71 Federal departments, agencies, and offices." Former Commerce Secretary Robert Mosbacher said the Department is "nothing more than a hall closet where you throw everything that you don't know what to do with."

More than $609 million was spent last year by just three of the Department's many subsidy programs: the Advanced Technology Program, the Economic Development Administration and the Manufacturing Extension Partnership. Those who support using taxpayer money to fund benefits to the politically favored will assuredly claim that this is a small percentage of the Federal budget and isn't much money. Any taxpayer will tell you that the $609 million is quite real.

This $609 million is being siphoned away from the taxpayer so that Washington can dole out favors. Every dollar taken in taxes so that Washington can determine who gets subsidized is one less dollar that can be invested in the private sector.

Government handouts also penalize successful companies by forcing them to subsidize their competition. Promising technology and companies are well funded by private investors. Poor investments and less-promising companies can't attract private investment, so they seek government subsidies instead. This forces the successful companies who have paid their dues, taken risks and incurred losses for many years to subsidize their competition with their tax burden.

For example, a few years ago, a company had developed video-compression technology after years of investment in R&D. This new technology promises to reshape picture transmission for television, computers and the internet. Once the technology began to take off and the company started making a profit, the Department of Commerce funded one of their competitors through the Advanced Technology Program to develop the same technology.

Defenders of these subsidies claim that they are necessary because the programs that they fund aren't adequately pursued by private investors due to their high degree of risk.

T.J. Rogers, founder of Cypress Semiconductor, notes that the "high-risk" argument used by the Department of Commerce is usually justification to subsidize poor investments. He emphasizes that the important evaluation is the return on investment (ROI), not risk. Investments with a reasonable or low risk and a good return are enthusiastically supported by private investors because they are seen as a wise use of their money. Investments with high risk and ordinary or low return are those that are given government subsidies.

High-definition TV is one of the clearest failures of government technology handouts. Japanese businesses, with subsidies that totaled $1 billion in the late 1980's, sought to develop HDTV using existing analog technology. The French did the same.

In the United States, $1.2 billion in government subsidies requested to compete with these foreign rivals was denied. In the absence of government handouts, American companies went on to develop an alternative technology with their own money.

In Japan, HDTV was transmitted by satellite. The picture quality was only marginally better than their standard signal, and special televisions were required to receive HDTV. The Japanese people responded to this massively subsidized technology by doing nothing: they refused to purchase the televisions required to receive the signal.

Alternatively, the digital technology developed by the American companies made the Japanese analog system obsolete. As a result, the Japanese announced plans to adopt the American system. The Japanese and European taxpayers lost $2 billion because their governments handed out subsidies. The U.S. relied on the market, and the results proved that the market works.

Defenders of centralized technology policy will claim that ATP and other high-technology handouts are essential to maintain our nation's research and development. Hogwash. While the $609 million distributed last year by Washington is a lot of money, it pales in comparison to actual investments made by the private sector. According to the National Venture Capital Association, more than $38 billion was invested in high technology in 1999. Government subsidies amounted to slightly more than 1 percent of this amount. Clearly, the private sector is driving R&D.

Economic growth and technical innovations are not a result of selective government subsidies; they are the result of the genius and insight of the American people operating in the free market.

High taxes and large subsidies fuel each other's growth. In 1993, the largest tax increase in history was enacted. In 1994, the Advanced Technology Program was funded at its highest level ever. Increasing the tax burden on American families and industry so that bureaucrats can give some of it back to the politically powerful is not right, nor is it economically beneficial (except, of course, to those receiving the subsidy).

The appropriate way to enhance the competitiveness and productivity of American industry is to minimize government interference in the marketplace and substantially reduce tax rates and regulatory burdens.

Tim Draper, a Silicon Valley venture capitalist, flatly states that "government subsidies * * * winners and losers selected by non-market forces * * * simply distort the market. This is not just a waste; it is just plain wrong. The government's job should be to let the market do its job. The best thing bureaucrats and politicians can do is leave us alone."

Agencies like the Department of Commerce and programs such as ATP distort and harm the relationship between business and government. Last year the House Appropriations Committee called for the elimination of ATP, stating: "After many years in existence, the program has not produced a body of evidence to overcome those fundamental questions about whether the program should exist in the first place." The report continued, "Given the tremendous financial constraints under which the Committee is operating, the question becomes whether it is worthwhile to continue to fund a program of questionable value, particularly one that costs over $200,000,000 a year."

The General Accounting Office (GAO) weighed in on ATP in March of this year. GAO identified three completed ATP projects that addressed goals similar to those already funded by the private sector: an on-line handwriting recognition system, a system to increase the capacity of existing fiber optic cables, and a process for turning collagen into fibers for human prostheses.

The Department of Commerce set up a peer review process to study distribution of ATP funds to ensure prudent spending. Unfortunately, this process is flawed. According to GAO, ATP's conflict-of-interest provision limits its ability to identify similar research. Federal Government employees, who are general experts in the particular field, are utilized to review grant applications. The problem is that these reviewers are not directly involved with the proposed research area, limiting their ability to identify similar research. The second problem identified by GAO was that information regarding research by other companies was not available because it was proprietary. Early release of any information could damage a firm's ability to get to the marketplace first.

GAO understands these concerns and suggests that these two peer-review safeguards remain in place to ensure that private sector research is protected.

If these precautions cannot guarantee a wise expenditure of funds, there should be no expenditure of funds. The Federal Government cannot award grants without compromising the secrets of the private sector. In other words, ATP simply can never function effectively, and the government should bring an end to this unsuccessful intervention into the high tech marketplace.

Let me conclude by emphasizing that Citizens Against Government Waste is not antibusiness. Industrialist Peter Grace, who founded CAGW, understood the importance of the private sector's leading role in the economy. CAGW supports a strong vibrant economy based on the skills and sweat of entrepreneurs, not the arbitrary system of picking winners and losers by the Federal Government through special business subsidies.

Thank you for the opportunity to appear today before the Committee. I will be happy to answer any questions you may have.

Mr. RYAN OF WISCONSIN. Thank you, Tom, and thank you for all the work you and CAGW have done. And you, as well, Jill.

I might add, the ATP program was zeroed out in last year's appropriations process, only to be leveraged back in at the insistence of the administration in the end of the year wrap-up appropriations bill. So Congress has acted on this already.

I hope we will act similarly on this new appropriations cycle, but we have to hope the administration would share the viewpoints that you two have expressed here. We will go to Peter Sperry, and then, Steve, we will go to you after Peter.

STATEMENT OF PETER SPERRY

Mr. SPERRY. Mr. Chairman, I thank you for inviting me here today to discuss corporate welfare. It should be noted the following testimony is my own view and does not necessarily reflect that of the Heritage Foundation.

I too would like to focus on the Advanced Technology Program as a singular example of corporate welfare that benefits no one except the corporations receiving government funding and, quite honestly, not them very much.

ATP is a competitive cost-sharing program that since 1990 has funded 486 projects at a cost of about $1.5 billion in Federal matching funds. According to ATP's Web site, the Advanced technology program bridges the gap between the research lab and the marketplace stimulating prosperity through innovation. Through partnerships in the private sector, ATP's early-stage investment is accelerating the development of innovative technologies that promise significant commercial payoffs and widespread benefits for the Nation—at least that is what their Web page says.

The Omnibus Trade and Competitiveness Act of 1988, which established the ATP program, states that the ATP should not fund existing or even planned research that would be conducted in the same period in the absence of ATP financial assistance.

The clear intent of Congress is that ATP funding should be provided only to private sector partners who have the technical capability to develop beneficial new technologies but lack either financing or motivation. Nevertheless, the roster of ATP grant recipients reads like a Who's Who of Corporate America, including 3M Company, AT&T, Bell Labs, Advanced Micro Devices, Alcoa, Amoco, British Petroleum, IBM, and Sun Microsystems, to name just a few.

The financial ability of these corporations is unquestioned. IBM alone spends over $5 billion per year in research and development, three times the amount that ATP has spent in a decade; they hardly stand in need of financial assistance from the taxpayer. Nor do ATP's grant recipients need Federal funding to motivate their interest in research projects.

According to their Web site, the single largest ATP grant has been $31 million for Miniature Integrated Nucleic Acid Diagnostic Development, or MIND, a project sponsored by Affymetrix, Incorporated, of Santa Clara, California. MIND is essentially a DNA-based diagnostic device. Affymetrix's Web site reveals that the company was founded and exists to develop and market DNA-based diagnostic devices. In fact, that is the company's only business, a reasonably compelling motivation to conduct research, with or without government assistance.

Furthermore, 22 percent of their stock is owned by Glaxo Wellcome, a leading pharmaceutical corporation, providing Affymetrix with both ready access to venture capital for research products and additional motivation to develop and expand their product line.

The second largest project funded by ATP, at $28 million, is to develop the critical technologies needed to enable production and delivery of high definition television. The project is being conducted by Sarnoff Corporation, a research affiliate of RCA, which has both strong corporate motivation to develop HDTV on its own and more than enough financial capability to do so. Additional partners in this venture include IBM, MCI, NBC, and Sun Microsystems. Any single company in this group could easily finance the entire project, and each of them has a vested interest in the outcome.

As early as 1996, the General Accounting Office examined whether research projects would have been funded by the private sector if they had not received funds from ATP, and concluded that many of these projects would have been funded with or without

ATP participation. The GAO also noted most applicants did not even look for funding from other sources before applying to ATP.

Many ATP projects would be comical if they did not represent such a misuse of tax revenues. Between March 1995 and August 1998, ATP provided the Koop Foundation, Inc., $14 million for a health informatics initiative. Dr. Koop, the former Surgeon General, according to press remarks, made about $14 million when Drkoop.com went public last year; and investors, according to more recent reports, may have lost nearly as much when they ran out of cash early last month.

IBM is listed as the lead sponsor on a project to develop a product-based family framework for computer-integrated manufacturing. ATP is contributing about $1.8 million to the project, about 0.04 of 1 percent of what Big Blue spends each year on research and development, and less than what they spend on a single 30-second commercial during the Super Bowl.

ATP lists 23 projects it has funded with over $10 million and 63 funded at over $5 million, but the bulk of its grants have been under $5 million, an amount which any serious technology company with an attractive proposition should have no problem raising in the private sector if they are willing to make the effort.

Mr. Chairman, the Advanced Technology Program does not expand the resources available for applied research and development. It merely serves as a convenient source of petty cash for technology companies. The projects that have real value would be funded with or without Federal funding. In many ways, the ATP is like a take-a-penny, leave-a-penny-tray found in convenience stores. We could all reach into our pockets and find some spare change, but if the pennies are free, we are all the more than willing to use them and we generally take more pennies than we leave.

I would like also to extend the example of the ATP program to other forms of corporate welfare, relating them to the proposed Commission. Corporate research and development programs are rarely dependent on government funding. The same is true of many other programs. Last year Kevin McNew, Assistant Professor in the Department of Agriculture and Resource Economics at the University of Maryland, examined agriculture subsidies and pointed out, not all farmers are created equal. The average 500-acre Illinois grain farmer actually is barely breaking even under agriculture subsidies, while the 1,500-acre farm enjoys a $68,000 profit. Again, they are subsidizing the competition.

Corporate farmers make their decisions based on their contracts with Cargill, ADM, Monsanto and General Mills. Most corporations will strive also to gain or hold a place in the world market with or without the market access program. A BRAC-like commission examining corporate welfare should approach this issue with the recognition that this interest is broad, but not necessarily very deep.

Almost every industry qualifies for some form of government assistance; very few of them are dependent on it. Corporate lobbyists, farmers, small businessmen, labor unions and other special interests will bombard the Commission, but in the end, they will live without the subsidies.

Mr. RYAN OF WISCONSIN. Thank you, Mr. Sperry.

[The prepared statement of Mr. Sperry follows:]

PREPARED STATEMENT OF PETER SPERRY, FELLOW, FEDERAL BUDGETARY AFFAIRS, HERITAGE FOUNDATION

Mr. Chairman, thank you for inviting me here today to discuss corporate welfare. It should be noted that the following testimony is my own view and does not necessarily reflect that of The Heritage Foundation. I would like to focus on the Advanced Technology program as a singular example of corporate welfare that benefits no one, except the corporations receiving government funding. ATP is a competitive cost-sharing program that since 1990 has funded 486 projects at a cost of about $1.5 billion in Federal matching funds.

According to ATP's Web site:

"The Advanced Technology Program (ATP) bridges the gap between the research lab and the market place, stimulating prosperity through innovation. Through partnerships with the private sector, ATP's early stage investment is accelerating the development of innovative technologies that promise significant commercial payoffs and widespread benefits for the nation."

The Omnibus Trade and Competitiveness Act of 1988 (P.L. 100–418), which established the ATP program, states that the ATP should not fund existing or even planned research that would be conducted in the same time period in the absence of ATP financial assistance.

The clear intent of Congress is that ATP funding should only be provided to private-sector partners who have the technical capability to develop beneficial new technologies but lack either financing or motivation.

Nevertheless, the roster of ATP grant recipients reads like a who's who of corporate America including 3M Company, AT&T Bell Laboratories, Advanced Micro Devices, Alcoa, Amoco, British Petroleum, IBM, and Sun Microsystems, to name just a few. The financial ability of these corporations is unquestioned. IBM alone spends over $5 billion per year in research and development, three times the amount that the ATP has spent in a decade. They hardly stand in need of financial assistance from the taxpayer.

Nor do ATP's grant recipients need Federal funding to motivate their interest in research projects. According to their Web site, the single largest ATP grant has been $31,478,000.00 for Miniature Integrated Nucleic Acid Diagnostic Development (MIND), a project sponsored by Affymetrix, Inc., of Santa Clara, California. MIND is essentially a DNA-based diagnostic device. Affymetrix's Web site reveals that the company was founded and exists to develop and market DNA-based diagnostic devices. In fact, that is the company's only business, a reasonably compelling motivation to conduct research with or without government assistance. Furthermore, 22 percent of their stock is owned by Glaxo Wellcome, a leading pharmaceutical corporation, providing Affymetrix with both ready access to venture capital for research projects and additional motivation to develop and expand their product line.

The second largest project ($28,421,489) funded by the ATP is to develop the critical technologies needed to enable production and delivery of high-definition television (HDTV). This project is being conducted by Sarnoff Corporation, a research arm of RCA which has both a strong corporate motivation to develop HDTV on its own and more than enough financial capability to do so. Additional partners in this venture include IBM, MCI, NBC, and Sun Microsystems. Any single company in this group could easily finance the entire project, and each of them has a vested interest in the outcome.

As early as 1996, the General Accounting Office examined whether research projects would have been funded by the private sector if they had not received funds from ATP and concluded that many of these projects would have been funded with or without ATP participation. The GAO also noted that:

"Most applicants did not look for funding from other sources before applying to ATP; 63 percent of applicants (77 of 123) said they had not."

IBM is listed as the lead sponsor on a project to develop a Product-Family-Based Framework for Computer Integrated Manufacturing. The ATP is contributing $1,864,000.00 to this project, about 0.04 percent of what Big Blue spends each year on research and development and less than what they spend on a single 30 second commercial during the Super Bowl.

The ATP lists 23 projects it has funded with over $10 million and 63 funded at over $5 million, but the bulk of its grants have been under $5 million, an amount which any serious technology company with an attractive proposition should have no problem raising in the private sector if they were willing to make the effort.

Mr. Chairman, the Advanced Technology Program does not expand the resources available for applied research and development. It merely serves as a convenient source of petty cash for technology companies. The projects that have real value would be funded with or without Federal funding. In many ways the ATP is like the "take a penny/leave a penny" tray found in convenience stores. We could all reach into our pockets and find some spare change; but if the pennies are free, we are all more than willing to use them, and we generally take more pennies than we leave.

I would like to close by extending the example of the ATP program to other forms of corporate welfare and relating them to the proposed commission. Corporate research and development programs are rarely dependent on government funding. The same is true of many other programs. Last year, Kevin McNew, Assistant Professor in the Department of Agricultural and Resource Economics at the University of Maryland, examined agriculture subsidies and pointed out that:

"* * * not all farmers are equal when it comes to production costs. A 1996 University of Illinois study illustrates this fact. It finds that the average 1,500-acre Illinois grain farmer enjoys 15 percent lower production costs than a 500-acre Illinois farmer. In real terms, this means that a $2.30 corn price would result in a $7,000 loss for a 500-acre farm, but at that same price, the 1,500-acre farm would enjoy a $68,000 profit."

Government policy has failed to recognize this fact, however, when designing farm program payments. Farm program payments are made in terms of prices, not the measures of a farm's profitability. Thus, a farm program payment of 20 cents per bushel would mean a $15,000 payment for a 500-acre farm, thereby turning a marginally unprofitable farm into a marginally profitable one. In contrast, that same subsidy to a 1,500-acre farm would be a $45,000 payment, creating an extremely profitable situation. On the aggregate level, there is significant evidence that larger farmers enjoy most of the farm program benefits. For example, farms that have annual sales of $100,000 or more receive 70 percent of farm program payments, and their net-worth averages nearly $1 million per farm.

Corporate farmers, like their technology counterparts, will base their investment decisions on private-sector forces such as their contracts with Cargill, ADM, Monsanto, or General Mills. Those who are providing value to the market will prosper with or without government funding; but if free money is available, they are not going to turn it down.

Similarly, most U.S. corporations will strive to gain and hold a place in the world market. Those with quality products and services will succeed regardless of the activities of the Market Access Program; but, again, if MAP can throw some marketing dollars in their direction, they'll take them.

A BRAC-like commission examining corporate welfare must approach this issue with the recognition that corporate interest is broad but not deep. Almost every industry or corporation in America qualifies for some form of government assistance. Very few of them are dependent on it. Corporate lobbyists, farmers, small businessmen, labor unions, and other special interests will bombard the commission with subsidy success stories, examples of market failure, dire predictions of economic hardship, and promises of electoral revenge if their pet program is eliminated. Two year after the program is gone, they will find they are better off without it. Just ask Portsmouth, New Hampshire, which used all of these arguments in an unsuccessful attempt to save Pease Air Force Base and now enjoys an industrial campus which employs more people at high wages.

Corporate welfare benefits no one; it merely distorts the market and drains taxpayer resources.

Mr. RYAN OF WISCONSIN. Mr. Moore.

STATEMENT OF STEPHEN MOORE

Mr. MOORE. Thank you, Mr. Chairman. I want to give special thanks to Chairman Kasich and to Congressman Hoeffel for their leadership on this issue throughout the years.

Before I begin my testimony, I will state for the record in accordance with the Truth in Testimony requirement that neither I nor the Cato Institute receives any government funding nor do we seek any.

Let me give you just a quick review of where we are with our project on corporate welfare. This has been one of our biggest fiscal projects that we have undertaken ever at Cato, and I thought what might be most helpful for you is to just give you an overview of what we are finding in our studies.

First, we estimate today that if you include tax subsidies and the spending subsidies in the Tax Code and the Federal budget, and if you were to eliminate those, you could save about $100 billion a year. So we are talking about a fairly sizeable element in the budget. Most of that is in direct spending subsidies, but Congressman Hoeffel is right, there are a number of loopholes in the Tax Code that should be abolished as well.

I thought I would give you some examples of programs that we think are real prominent examples of corporate welfare. These include the Export-Import Bank, Economic Development Administration, the Small Business Administration, and the International Monetary Fund. I wanted to mention two other programs that may not be on your radar screen that you ought to look at with respect to corporate welfare, and those are Fannie Mae and Freddie Mac, the government-sponsored enterprises which are receiving, according to the Congressional Budget Office, billions of dollars of subsidies to the shareholders of those companies. I hope that would be included in any Corporate Welfare Commission.

We estimate there are about 125 separate programs that provide direct business subsidies. We looked at the last budgets, the 1999 and 2000 budgets, to try to find out whether these programs are going up or down in the budget. What we found is that Congress appropriated about a 3 percent increase in these programs in the last fiscal year, despite the rhetoric about attacking corporate welfare. We also found that President Clinton's budget recommended about a 10 percent increase in these programs.

In terms of what we might be able to do in terms of trade-offs, if we were to get rid of corporate welfare, just to give you an estimate of how big these numbers are, with the $100 billion we could save by getting rid of corporate welfare, we could do a 10 percent across-the-board income tax cut, we could virtually entirely eliminate the capital gains tax, or we could entirely eliminate the death tax. I would make the case to all of you today, if we were to get rid of either of those last two taxes or cut income taxes across the board by 10 percent, that would do much more for our economic competitiveness than by giving out favors to special industries.

So what is to be done? How do we attack this giant problem in the budget? I am a proud member as I think everyone at this table is, of John Kasich's Stop Corporate Welfare Coalition. What is it? For about 3 or 4 years now we have been trying to attack corporate welfare through the appropriations process, and we have had, at best, mixed success.

It is for this reason that although I have had some reservations about the idea of a Corporate Welfare Elimination Commission, I think I am becoming much more open-minded to it, because we have failed in other direct types of ways of getting rid of corporate welfare. So I kind of reluctantly endorse this legislation, and I think ultimately that it can do real good in terms of getting rid of a lot of these programs.

Let me just suggest a few things you might want to consider, Mr. Hoeffel, in terms of things that should be included in your bill.

First, I think we ought to eliminate double-dipping so that corporations cannot receive more than one form of corporate welfare.

Second, I really like the idea of enacting time limits on corporate welfare. We did this with social welfare legislation. We said, what, 3 years and off? We ought to do that with corporate welfare subsidies as well, with programs like the Small Business Administration.

Third, we should require firms to report to Congress all of the Federal money they receive each year and from what programs and agencies they receive money. One of our frustrations we have had in trying to tackle this monster is just getting a sense of how much money is going to corporations. It is very difficult to track all of the various grant agencies and to figure out who is getting what. I think it would be a real advance if we had better data on what corporations are getting money from what sources.

Fourth, we ought to look at what the proper congressional oversight of the GSE's is, as I mentioned before. This should fall under the area of corporate welfare. I hope you will include the GSE's in your legislation.

In conclusion, I would just like to congratulate Mr. Hoeffel for taking on this bill. This issue—I know you don't make a lot of friends when you take on the corporate welfare state, but you are doing exactly the right thing and I hope we can help.

Mr. RYAN OF WISCONSIN. Thank you, Mr. Moore.

[The prepared statement of Mr. Moore follows:]

PREPARED STATEMENT OF STEPHEN MOORE, ADJUNCT FELLOW, CATO INSTITUTE

Thank you Chairman Kasich for the opportunity to testify before the Budget Committee on Congressman Hoeffel's proposal to create a national commission to eliminate corporate welfare in the Federal budget. I want to congratulate both of you for your leadership on this issue.

Before I begin my testimony, I will state for the record in accordance with the Truth in Testimony requirement that neither I, nor the Cato Institute, receive any government funding.

Corporate welfare in the tax code and in the Federal budget costs in excess of $100 billion a year, according to latest estimates by the Cato Institute. Most of these subsidies are direct outlays to Fortune 500 companies. Prominent examples of corporate welfare include: the Export-Import Bank, the Economic Development Administration, the Small Business Administration, farm subsidies, public housing construction programs, and the International Monetary Fund. I believe that the Government Sponsored Enterprises, most notably Fannie Mae and Freddie Mac, are also multibillion dollar forms of Federal assistance to corporate shareholders.

In all, there are about 125 business subsidy programs in the Federal budget and they can be found in virtually every cabinet agency of the government—including the Defense Department.

Our latest survey of corporate welfare indicates that for Fiscal Year 1999, corporate welfare subsidies increased by roughly 3 percent. President Clinton recommended a gigantic 10 percent hike in corporate welfare spending for FY2000. The attached table identifies the budget totals for FY1999 for what we regard as 30 of the most egregious examples of business subsidies. The total budgets for these programs exceeds $25 billion.

We have also found that many Fortune 500 companies are double and triple dippers. In our analysis of the 1996 grants awarded to corporations, we found that in 1996 General Electric Co. won 15 grants for $20.1 million. Rockwell International received 39 grants for $25.4 million. Westinghouse Electric Corp. received 14 grants for $26.1 million. Yet each of these companies had profits of at least half a billion dollars that year.

If Congress got serious about eliminating unwarranted business grants and subsidies, the savings could be used to finance large and meaningful tax relief. With $100 billion a year, we could eliminate the death tax or the capital gains tax entirely. Alternatively we could reduce income tax rates by 10 percent across the board. These supply side tax reduction policies would have very substantial positive impacts on the U.S. economy.

The members of this Committee should recognize that corporate welfare reduction would be a major step toward campaign finance reform. With $100 billion of special corporate favors for sale in Washington, the wonder is not that corporate America spends so much, but so little to chase down this Niagara Falls of benefits. We could also eliminate the incentive for corruption of our political process if corporate welfare programs were terminated. Our studies indicate that the corporations that receive corporate grants also tend to be large money pipelines for both hard and soft campaign dollars.

Although it is said that corporate subsidies are necessary so that U.S. firms can compete with their subsidized rivals in other nations, more than 90 percent of American businesses manage to stay in business without ever receiving government grants, loan guarantees, insurance, or airplane seats on Commerce Department trade missions around the globe. But they pay higher taxes, which lowers their competitiveness, to support those businesses that do. Agricultural price supports are a case in point. Farm programs are alleged to be critical to the survival of American farmers. The truth is that of the 400 classified farm commodities, about two dozen receive more than 90 percent of the assistance funds. Over 80 percent of the subsidies enrich farmers with a net worth of more than half a million dollars.

This brings me to the question of how we tame the corporate welfare beast? I have said before to this committee that I wish a commission were not necessary. The Republican party is said to be for free markets and against European industrial policy interventions. Yet, what Germany and France have found to be a spectacular failure on a grand scale, is now experimented with on a smaller scale in the U.S. By funding corporations with tax dollars the GOP only has reinforced the public's suspicion that this is the party of the rich, the privileged, and the well-connected. The discredited mercantilist policies of the Commerce and Agriculture Departments are the antithesis of the free market policies Republicans say they espouse.

Meanwhile the Democrats have been equally, if not more, reluctant to shut down Federal corporate welfare programs. Yet, corporate welfare exacerbates the disparities in wealth between the rich and the poor. The Progressive Policy Institute has shown that corporate subsidies are regressive: most of the benefits go to wealthy and well-connected businesses and shareholders. Where is the "fairness" in that?

One last point. Most of the corporate subsidies that Congress appropriates each year are outside the proper spending powers of the Congress as designated in the Constitution. The enumerate spending powers as laid out in Article 1, Section 8 of the Constitution say nothing about creating business hand-outs to help some groups at the expense of others. The founding fathers would be aghast to see Congress passing out dollars to favored business interests each year

So what is to be done? I am a proud member of Chairman Kasich's Stop Corporate Welfare Coalition. We have elevated this issue in Federal budget deliberations and have created a sense of outrage among voters. But our victories have been disappointingly few and far between.

Congressman Hoeffel's idea of a bipartisan corporate welfare elimination commission may have merit. It is a shame that we may need an unelected commission to do what Congress should have the courage to do itself. But clearly Congress lacks that courage. A military-base-closings type of Commission, where Congress has to vote up or down on an entire package of corporate welfare spending cuts, might be the most promising tactic. Congress should require that the bipartisan Commission recommend at least $20 billion (per year) in corporate welfare spending cuts. The Commission should report its findings to Congress by July 1, 2000. Congress should be required to vote up or down on this package within 60 days of its report.

As far as tax subsidies are concerned, my preference would be to have an entirely separate commission to look at the special interest provisions in the IRS code. There are thousands. This Commission should identify economically inefficient tax breaks—such as the Ethanol subsidy—and then calculate how much we could reduce the payroll tax, the income tax, or the corporate tax if we eliminated all of these loopholes. The basis of a good tax system is a broad tax base with low rates.

I like this particular feature of the Hoeffel bill. Mr. Hoeffel proposes that every dollar raised through loophole closings would be used to cut unproductive high tax rates. This is the essence of good tax policy. We want a broad base, and low rates. I believe that we could lower the corporate income tax rate to 20-25 percent (from 35 percent today) if all unwarranted tax loopholes were closed.

I would hope that the Corporate Welfare Elimination Commission would advise Congress to adopt guidelines with respect to business subsidies. These should include:

1. *Eliminate double-dipping.* Enact a law that says that companies are not entitled to more than one corporate welfare grant per year. Sorry, GE and GM. One per customer.

2. *Enact time limits on corporate welfare.* With AFDC the Congress enacted "two years and off." We should have a similar time limit on corporate pork with companies.

3. *Require firms to report to Congress all of the Federal money they receive each year and from what programs and agencies.* Currently it is virtually impossible to keep an inventory of what companies are getting how much from how many agencies. The records simply do not exist. How much total money does AT&T receive every year from taxpayers? The answer is we don't know. But we should.

4. *What is the proper Congressional oversight of the GSEs.* These are among the most egregious forms of corporate welfare. The GSEs are growing rapidly. But no one in Congress pays much attention. The GSEs are proper targets of any commission.

Congratulations to Mr. Hoeffel for his courageous proposal to take on the corporate special interests. His bill is not perfect. But I believe that we will only prevail on this issue when fiscally conservative Democrats link together with Republican budget hawks to expose the massive fleecing of taxpayers that goes on every year in business handouts provided by Congress. We need to regularly review the wisdom of these corporate welfare policies. It makes no sense for the Federal Government to be breaking up fabulously successful companies like Microsoft at the same time we are spoon feeding tax subsidies to the losers. That is a recipe for economic decline and inefficiency.

In 1996 Congress passed welfare reform which has been a major policy success with massive reductions in welfare dependency. The tragedy of the Republican Congress is that over the past 6 years corporate welfare dependency has risen. Mr. Hoeffel's bill is far from perfect. But it may be our last, best opportunity on the table to get corporate America off the dole.

TABLE 1.—HOW SOME OF THE WORST CORPORATE WELFARE PROGRAMS FARED

[Millions of dollars)

Agency/Program	1999 Outlays
AGRICULTURE DEPARTMENT:	
Agricultural Credit Insurance Fund	$353.0
Agricultural Marketing Service	43.0
Agricultural Research Service	761.0
Commodity Credit Corporation Export Loans Program	449.0
Conservation Reserve Program	1,576
Cooperative State Research, Education, and Extension Service	919.0
Economic Research Service	58.0
Export Enhancement Program	550.0
Federal Crop Insurance Corporation	1,303.0
Foreign Agricultural Service	136.2
Market Access Program	89.0
National Agricultural Statistics Service	102.0
Public Law 480 Grants	1,058
Rural Community Advancement Program	723.0
Rural Business-Cooperative Service (RBCS)	57.0
COMMERCE DEPARTMENT:	
Economic Development Administration	381.0
Advanced Technology Program	190.0
Manufacturing Extension Partnership	128.0
International Trade Administration	286.0
Minority Business Development Agency	31.0
National Oceanic and Atmospheric Administration: nonweather activities	1,087.0
DEFENSE DEPARTMENT:	
Army Corps of Engineers	4,209.0
Research, Development, Test, and Evaluations: applied R&D program:	
Advanced Electronics Technologies R&D [1]	264.6
Commercial Technology Insertion Program	0.0
Computing Systems and Communications Technology R&D [1]	331.3
Dual Use Applications Programs [1]	36.0
Electric Vehicles [1]	9.0
Materials and Electronics Technology R&D [1]	278.0
Next Generation Internet [1]	50.0

TABLE 1.—HOW SOME OF THE WORST CORPORATE WELFARE PROGRAMS FARED—Continued

[Millions of dollars]

Agency/Program	1999 Outlays
Energy Department:	
Energy Conservation Programs	560.0
Energy Information Administration	70.0
Energy Supply Research Programs	883.0
Fossil Energy Research and Development	370.0
Science Programs	2,534.0
Power Marketing Administrations	185.0
INTERIOR DEPARTMENT:	
Bureau of Reclamation	1,143.0
TRANSPORTATION DEPARTMENT:	
Commercial Space Transportation Office	6.0
Federal Highway Admin.: earmarked demonstration projects	450.0
Grants-in-Aid for Airports	1,565.0
Maritime Administration: Guaranteed Loan Program	60.0
Maritime Administration: Operating-Differential Subsidies	19.0
Maritime Administration: Ocean Freight Differential	24.0
Maritime Security Program	98.0
Essential Air Service Program (Payments to Air Carriers)	50.0
INDEPENDENT AGENCIES AND OTHER:	
Appalachian Regional Commission	151.0
Export-Import Bank	799.0
NASA/Aeronautical Research and Technology activities	786.0
National Science Foundation: High Performance Computing and Communications	301.0
Overseas Private Investment Corporation	127.0
Partnership for a new Generation of Vehicles	235.0
Small Business Administration	12.0
Tennessee Valley Authority-Area and Regional Development	53.0
Trade and Development Agency	60.0
Total	$25,999.1

Source: Cato Institute analysis based on the Budget of the U.S. Government, FY 2000.

[1] Numbers are from the respective appropriations bills.

Mr. RYAN OF WISCONSIN. Thank you to all the panelists.

We will start with a round of questions. I will begin by asking each of the panelists, in this debate and in this bill, you have the issue of tax expenditures and direct spending subsidies. There is always an ongoing debate whether or not a tax expenditure is corporate welfare or not. I would like to hear your opinions.

Steve, I just heard you endorse the idea of closing tax loopholes in an effort to close corporate welfare. If we could start with you, Jill, and go down the line. Do you believe that tax expenditures are a form of corporate welfare and spending, and if not or if so, why?

Ms. LANCELOT. We do believe that tax expenditures are a form of subsidies and corporate welfare, and there are many loopholes that we believe can be closed. So we would like to see that included, yes.

Mr. MOORE. I am glad you asked this question, Mr. Ryan, because I meant to clarify my position on this. This is an opportunity to do that.

I think you and I and Mr. Hoeffel have had discussion on this in the past. I think the original version of your bill I was much more lukewarm on than this version. My opinion, Congressman, is that if we were to eliminate corporate loopholes but use that money to lower tax rates, for example, I mean, that is the essence of good tax policy.

You know, the essence of good tax policy is a broad base and low rates. So once Mr. Hoeffel put this provision in his bill that said, look, if we do eliminate some of these corporate loophole closings, then we are going to use that money for other tax cuts in other places, I am on board with that. I think that is really good tax policy. I am not in the business to want to raise taxes on corporations, but I think this bill gets around that problem.

Mr. RYAN OF WISCONSIN. Thank you for that answer, Mr. Moore. I think that clarification is very important, because personally I believe tax expenditures are based upon a flawed premise, and it is a flawed premise that essentially assumes this is the government's money unless they extend it back to the private citizen or private corporation.

Personally, I think that is backwards. It is a private citizen's money until they send it to the government, not the other way around. So I think that, personally, from a standpoint that tax expenditures and the closure of those things ought to be done in conjunction with a decrease in revenues or tax cuts associated with it, because if we do close these loopholes, the way this place seems to be working, as a new guy, it gets spent. So I hope this is done in conjunction with offsetting tax cuts.

Mr. Schatz.

Mr. SCHATZ. I would certainly agree with the idea that there are bad policies made in picking and winners and losers with the Tax Code as there are on the side of spending, so it is certainly something that should be included in this Commission. It is the definition that will really make the difference and, of course, the ability to amend those items when they come back through the Ways and Means Committee or other committees and we can talk more about what we feel about that particular aspect of the Commission.

But there is no question that unless that money is walled off from being reused then it will not achieve its purpose. In fact, of course, we have supported a Social Security lockbox where this money is set aside. And the idea that over the years a lot of programs that we and others here have worked on have been eliminated, yet the money has gone and has been spent elsewhere, has not been the best way to eliminate these programs. Something else pops up in its place. So it is a very critical revision of any kind of examination of that side of the corporate welfare ledger.

Mr. SPERRY. I would certainly agree that any tax expenditure that benefits a single corporation or a narrowly defined business interest could be considered corporate welfare. I am a little bit concerned, however, that some people define the ability to deduct legitimate costs of business and legitimate costs of production as a tax expenditure and carried to the extreme corporations could be taxed on 100 percent of their revenue rather than on their profit. I think you need to draw a very bright line between tax expenditures that are targeted and that are only for certain special interests and those legitimate tax deductions which are a result of normal business practices.

Mr. RYAN OF WISCONSIN. Hearing these answers, it brings an idea of a solution to your bill, maybe, Mr. Hoeffel, that if the savings from this Commission were dedicated and forced to be dedicated toward debt reduction, say, or tax reduction, meaning you put a credit on a pay-go scorecard to force this to happen, you would have a real winner there.

Ms. RIVERS. If the gentleman will yield, I am confused as I listen to the panel. Because what I hear you saying is corporate welfare is defined not by the context in which it operates but what is going to be done with the money and that a tax expenditure should only be closed if the savings are to be used for tax cuts rather than because it is unfair to treat some taxpayers differently than others.

Mr. RYAN OF WISCONSIN. Or debt reduction.

Ms. RIVERS. No, it strikes me it either is or isn't unfair and should be eliminated. But to say, well, definitionally, it is really not corporate welfare, it is really not unfair if you are going to give the money—capture the money for a particular use. It strikes me it just either is or isn't. I don't understand the difference.

Mr. RYAN OF WISCONSIN. Reclaiming my time, I think there is a very valid debate about whether it is or is not corporate welfare. That is the question I posed to the witnesses. Seeing that there are differences of opinion among the witnesses, it seems like you might have some consensus among all of the groups pushing for corporate welfare closure that you could capture all of these efforts, you could then make sure that the savings from these efforts are not dedicated toward not new spending. If you believe corporate tax loophole closure is corporate welfare, then you are fine with that. But if the savings then goes toward debt reduction or tax reduction and not new spending, then I think you have a winner. That is what I was getting at.

Ms. RIVERS. But what you are really saying is the definition is a secondary one. The definition of whether or not you should proceed is based on what you are going to do with the money captured, not the basic unfairness of the situation or the inefficacy of the favored tax cut.

Mr. RYAN OF WISCONSIN. Reclaiming my time, I think there is a clear philosophical debate at the heart of this issue on the tax expenditure side whereby some believe it is not corporate welfare; some believe it is corporate welfare.

Ms. RIVERS. And there can't be a clear definition that guides us in policy making?

Mr. RYAN OF WISCONSIN. I think there should be, and I think that is what this debate is about.

Mr. Moore, I just wanted to ask one quick question. I am on the Banking Committee, and we are dealing with this issue on the GSEs, Fannie Mae and Freddie Mac, and I would like to ask you to expound a little further on what you see as corporate welfare with respects to these government-sponsored enterprises.

Mr. MOORE. Well, you know, Congressman Ryan, these GSEs have become gigantic enterprises, yet no one in Congress is really paying much attention. I just spoke at a conference at the American Enterprise Institute on this, and I noted that although you are all applauding yourself quite rightly for reducing debts over the last few years, how many of you are aware that virtually for every dollar of debt we have reduced in terms of the national debt, the GSEs are taking on an additional dollar of debt? We are treading water when it comes to debt reduction because of these gigantic GSEs.

Fannie Mae and Freddie Mac have tripled in size. The Congressional Budget Office has indicated, Congressman Ryan, that about one-third of the subsidies we provide to these GSEs, the benefits do not confer to the homeowners but the shareholders and the people that own Fannie and Freddie. So I believe this is a legitimate area to look at, and I hope Congressman Hoeffel would consider at least adding this under the purview of any commission.

Mr. BENTSEN. Mr. Chairman, with respect to that debt question, is that GSE debt full faith and credit debt of the United States Government or not?

Mr. MOORE. That is a very good question, Congressman. The markets sure act as if it is full faith and credit. It is interesting, because what is happening with the debt markets right now, as I am sure you are aware, as we are retiring Treasury bills, Wall Street is very worried they are not going to have risk-free notes out there to trade, and Fannie and Freddie have said we wanted to jump in and take the place of the Treasury note as the risk-free credit instrument out there. So certainly there is an impression out there on Wall Street that this debt does carry with it the full faith and credit of the United States Government. It is a very worrisome situation, Congressman, because right now they have nearly $1 trillion of debt.

Mr. BENTSEN. If the Chairman will yield, I will wait for my time, I will am eager to discuss that with you, because I think that is somewhat of a broad statement. And we have looked at this pretty closely, and I think there is a fairly significant rate differential between Treasury debt and GSE debts and a number of other factors. I wanted to clarify that.

Mr. RYAN OF WISCONSIN. Mr. Hoeffel.

Mr. HOEFFEL. Thank you, Mr. Ryan. I want to thank the panel for being here and for your testimony. You have all made some very good suggestions that I am very happy to consider as part of the bill.

It seems to me, regarding the earlier discussion that the definition—I agree with Mrs. Rivers that the definition is really the key to this process and that we ought to be looking at whether it is tax preferences or spending subsidies or below market rate use of Federal resources, that we should not be rewarding activity with these benefits that will happen anyway. One standard we can use is to try to eliminate that where we can find it and encourage such benefits that have a broad public benefit that get good things to happen because of the Federal benefit.

It is still difficult to nail down in all cases, but I think that needs to be part of the general approach.

I want to thank Ms. Lancelot and Mr. Moore for your support of the bill. And let me risk a bad answer by asking Mr. Schatz and Mr. Sperry whether you endorse the bill or the process or mechanism that the bill is suggesting to come up with a commission, with a set of recommendations for Congress to then deal with?

Mr. SPERRY. Well, Heritage as a 501(c)(3) is limited in endorsing specific legislation, but the concept I think is a good one, and I think that it could repeat the success of the BRAC commission. Particularly many of the most ardent foes of base closure found within 2 years after the bases were closed that they were so much better off without them, that their economy was better, there were more people employed, et cetera.

When I look at the actual small percentage that this is contributing to corporations, I think that a commission where everybody's ox got gored equally, if you will, would leave them better off, because, if for no other reason, they would not have to come to Washington periodically to rattle a tin cup in order to get spare change from the Federal Government.

Mr. HOEFFEL. Mr. Schatz, if it is easier for any of you to testify individually, rather than on behalf of your organization?

Mr. SCHATZ. We have a 501(c)(3) and 501(c)(4), so I can wear another hat, right. We have, of course, through the Council for Citizens Against Government Waste, our 501(c)(4), rated many votes on these subjects over the years, the Advanced Technology Program, Market Access Program, peanut and sugar subsidies, a long list. We have had some success, and, of course, in others we have gone year after year after the same issues.

The change in the funding for advanced technology is a big success for everyone here and the people that have pushed to eliminate funding for that program. Of course, we would like to see it eventually accepted by the White House, if not this one, maybe another one. But the fact is you do need to go on two tracks. We think your bill makes a lot of sense. We would certainly support it and endorse it through this committee and through the floor and on into the Senate.

I think the only question is, dealing again with the tax expenditures, clearly that will be an ongoing debate. Also, the idea of amending the bill when it comes back to the House, because the success of the base closure commission which arose out of a Grace Commission recommendation via Mr. Armey, who finally got it through, was the fact that there was an up-or-down vote. We talked briefly about the fact that some of these amendments haven't gone through and some have, and you would be repeating that same scenario on the floor of the House and the Senate if it were not an up-or-down vote. That would be the major change we would recommend for the bill.

Mr. HOEFFEL. Thank you. That was going to be my final question to all four of you.

Senator McCain put a corporate welfare commission bill in the Senate that was a single up-or-down vote like the BRAC approach, and this version allows amendment on the floor of the House and the Senate.

Mr. Schatz, I think you have just testified to your preference. I would be interested in the comments of the other three. Which version, if either, do you think is better for the process and more likely to be successful?

Ms. LANCELOT. I would like to say what our views are on this. We do support the notion of your bill. We have a little bit of a reservation that a commission allows Congress to hide behind it and say we have done it, and we do believe, though, the way you have set up this Commission, I think you are sensitive to that, and I believe that you have tried to set this Commission up in a way that it will move forward and it will get something done, so we appreciate that.

I do believe again one of our concerns is the same as Tom's, which is corporate welfare is subject to great amounts of political pressure. That is what corporate welfare is really all about. Sometimes it is an unhealthy relationship between elected officials and large corporations. So there needs to be a way to insulate this Commission from that kind of pressure.

Mr. MOORE. Just for point of clarification, to play it safe, I should note I was endorsing this idea as an individual, not through CATO, because we are in the same boat as Heritage.

I guess my inclination would be that I would prefer the Senate version where there is no amendment to these, because I do think that you run into some of the problems that Tom was talking about with respect to the base closings, that once you start allowing amendments, the whole thing just crumbles. My preference would be a straight up-and-down vote and let Congress decide whether they want the Commission's recommendations or not.

Mr. SPERRY. I think a straight up-or-down vote would accomplish a great deal and have a greater potential of passing. I think that the Commission report that was subject to amendment would create a feeding frenzy on K Street that would be disgusting.

Mr. HOEFFEL. Thank you. I just have a comment, then I will yield my time.

The problem with the BRAC approach, the single up-or-down vote, is it doesn't look like Congress is ever going to do it again. It worked, and it caused some pain in certain areas, but it worked, but it doesn't look like we can ever muster the courage to do it again.

The idea behind allowing an up or down—I am sorry, individual amendments on the floor of the House and Senate, frankly, was designed to make the process more attractive to Members, to make the bill's passage more likely. But we may then have a trade-off of making it harder to actually eliminate the corporate welfare. But I am afraid we will never do another BRAC and because of the difficulty with the single up-or-down vote.

Mr. SCHATZ. Congressman, the problem with BRAC was not necessarily the up-or-down vote, it was the politicization of some of the closings by the White House that led Congress to distrust any future commission. So it was not necessarily the process, it was how it was handled after the fact, even after Congress approved it, that there were some promises made that really went against what Congress had actually—and the President had—signed into law. So this might be a different area, it might be a different approach, and I think it may be worth having a further discussion about whether this subject matter would be subject to the same kind of pressures that the base closing commission ended up in.

Mr. HOEFFEL. Thank you all very much. Mr. Chairman, thank you.

Mr. MOORE. May I add one more thing to the point Mr. Hoeffel is making?

One of the things I find attractive—and I understand the political restraints you are under, but one of the things attractive about the straight up-or-down vote idea is if you had a bipartisan commission, 12 or 15 members, of people well respected and there was a near unanimous agreement on this Commission that these 20 programs or whatever it might be are corporate welfare that are unjustified subsidies, then this would be a tough vote for Congress to make.

How are you going to vote up or down on this bill? Everybody knows what the bill is about. You are either for or against corporate welfare. And that is important. Because my frustration on working on this issue now for about 8 years is every single one of your colleagues says they are against corporate welfare, every single one of them. But we never win a vote. We never win a vote, virtually, right? The reason is they always say this isn't corporate welfare, or that isn't. So the real attractive thing about your bill and your concept is everybody knows this is corporate welfare. Now it is time to stand up and be counted.

Mr. RYAN OF WISCONSIN. Mrs. Lancelot.

Ms. LANCELOT. I would like to make a comment as well.

What makes a difference? There are two things in my opinion—press and public opinion. Let's get this out to the public and let's make this a campaign so that folks understand when they are voting what it means to vote yes or no on this kind of issue. The polls out there all say that the public hates corporate welfare. Taxpayers certainly don't want their hard-earned dollars wasted. Let's let them have their say. Let's figure out a way to bring this campaign to the public so that their voices can come back here and be heard.

Mr. RYAN OF WISCONSIN. Again, I would like to make one quick clarification. I just reviewed the bill, and I noticed that it does have a credit on the pay-go scorecard from tax loophole closures. I commend the gentleman for including that, meaning it could go toward tax reduction or debt reduction. That is a very positive step in the right direction in this bill.

I would like to ask unanimous consent at this time that a statement by Congressman Rob Andrews from New Jersey be inserted in the record. Without objection, that shall be.

[The prepared statement of Mr. Andrews follows:]

PREPARED STATEMENT OF HON. ROBERT E. ANDREWS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

I oppose corporate welfare. We have required poor families who receive welfare benefits to support themselves if they are able to work—now it is time to tell major companies receiving taxpayer funds to fend for themselves as well.

Corporate welfare programs use tax dollars to subsidize the profits of large corporations. It is time to stop this waste of taxpayer funds. We should not use taxpayer dollars to subsidize a $145 million insurance policy that allows General Electric to manufacture light bulbs in Hungary. We should not use taxpayer dollars to loan McDonalds $14 million to build 16 fast-food restaurants in Brazil. We should not use taxpayer dollars to build roads through our nations forests for profitable timber companies.

In order to end corporate welfare as we know it, I have worked with my colleagues to create the "Stop Corporate Welfare" coalition. This diverse union of many citizen organizations with different viewpoints has one common goal: to eliminate government spending on wasteful corporate subsidies. This coalition will begin the fight to stop the government handouts to companies which can afford to fend for themselves, by mobilizing a broad spectrum of consumer, taxpayer, and environmental organizations to support this initial attack on corporate welfare.

Furthermore, I have written my own legislation (H.R. 332) to eliminate one specific egregious example of corporate welfare: The Overseas Private Investment Corporation. OPIC was created as a semi-private government agency that encourages U.S. companies to expand into developing nations. I believe that U.S. taxpayers should not be paying to subsidize the creation of jobs in other nations; domestic job creation must be our top priority, not exporting jobs overseas.

OPIC has placed at high risk over $12 billion of taxpayer money to subsidize many highly-profitable, Fortune 500 companies. At a time when we are reducing welfare for the poor, we should not be increasing welfare for rich companies.

OPIC hurts American workers by encouraging American corporations to invest abroad rather than reinvesting in America and creating jobs here at home. Some of the companies receiving OPIC subsidies have been cited by the U.S. Labor Department for overseas trade adversely affecting their U.S. workers—yet these companies continue to receive OPIC loans and insurance.

I will continue the fight to eliminate OPIC as a Federal agency. The government should not give loans to companies for their overseas operations, and taxpayers should not shoulder the burden of risky investments in unstable countries. I hope that Congress will vote for my bill, which would privatize OPIC once and for all.

Mr. RYAN OF WISCONSIN. Mr. Knollenberg.

Mr. KNOLLENBERG. Mr. Chairman, thank you very much.

Panel, welcome. I want to thank you for your oversight from the outside. I think it is important we have that. I want to thank the Chairman, obviously, and Mr. Hoeffel for his work in bringing this to this point.

I really wanted to go down a route with a different track, because while I appreciate everything you are doing and I appreciate what is being done here today, there are some things about the goals we have I think that we ought to look at very, very carefully.

For example, we all can identify in our own minds examples of waste, fraud, and abuse, and your job is to identify those things and bring it to our attention. Our job is to take that information and all the research that you can supply along with that to come up with a solution. We have got to resolve it. All you have to do is send us your thoughts, complaints, views, and observations to us.

Once you have identified them, I think what we have to do—and this is where I would like to have your help on a couple of points—we have to further identify, put it all under the microscope, so what we are doing is helping a broad group of Americans and not necessarily just a couple of corporate giants, or maybe several corporate giants.

I have found defining corporate welfare to be very difficult. When I first came here 8 years ago, I thought it was easy because I bought into everything I heard about corporate welfare. Since I have gotten here, though, I find that what some people will define as corporate welfare is really perhaps, if you smooth it out, it is not.

Now, I will give you an example. We have an energy policy. Actually, we don't. For the record, I would like to suggest that we don't have one. To that extent, I would like to identify where our energy comes from very briefly, and perhaps you can respond.

I don't want to take all my time. How much time do I have, Mr. Chairman? As much as I want?

Mr. RYAN OF WISCONSIN. Yes.

Mr. KNOLLENBERG. I won't take that much.

I don't believe we have an energy policy. I know, Ms. Lancelot, you referred to nuclear, the subsidy there. What I would like to call to your attention is this; that when you look at the energy mix of what we do have, whether it is coal, where over 50 percent of our electricity comes from—I sit on the Energy and Water Subcommittee and have been wading through this for 6 years. I am not against unbalancing the various categories of energy, but coal is over 50 percent. Nuclear is over 22 percent. It is growing. Yes, there hasn't been a plant built since '74, but it is growing. Gas is about 10 percent, hydro is about 10 percent, and the balance, it gets pretty—if you are catching up on the numbers, there is not much left.

It might interest you to know, and this is where I want your help, when it comes to the subsidy that Congress grants per megawatt hour for coal, it is 5 cents. By the way, coal is our largest resource when it comes to energy supply, over 90 percent is coal. There is a clean coal technology which might be, in your view, something that is corporate welfare. I don't know, but frankly, it is energy too. It is only 5 cents. Nuclear is 5 cents. Gas is 41 cents.

I am talking about a megawatt hour. This is all constant, so we are not changing anything.

Oil is 51 cents, wind is $4,600. And guess where solar is? $17,000 per megawatt hour. I am not saying we should not have solar or wind or biomass, but you know where all the energy source is? It is in those first items.

Maybe you can help us. How do we go about strategizing to really do the job right and put—if we are going to subsidies and there is a collection of people in this Congress that feel we should, shouldn't there be some balance to that? Shouldn't there be some way that we actually work with that which is commercially viable? Maybe there is something that we can change on it to make it cleaner.

Incidently, nuclear has no emissions at all. Coal has emissions and contributes to the environmental problems.

So is there perhaps something you can brainstorm here for a moment and tell me—I am only focusing on this one area at the moment—what we might be able to do to illustrate that there is an imbalance in how Congress subsidizes just in the energy arena?

I could talk about ATP. I happen to think you are right on target with that. You are right on target with a great number of things. I have a problem with you on OPIC, but we can work that out.

We can start, Ms. Lancelot, with you. Is there something that you might comment on relative to this energy matter which would help us maybe in a whole lot of ways and not just in budget matters but in policy for the future?

Ms. LANCELOT. Well, I have a simple answer that probably in today's world is not going to happen, but in the future hopefully it will, and that is that no energy source should be subsidized at all. The marketplace should——

Mr. KNOLLENBERG. Zero.

Ms. LANCELOT. Yes.

Mr. MOORE. It is hard for me to improve on that.

Mr. SCHATZ. Three zeros.

Mr. SPERRY. Four zeros. But I would add that full and complete energy deregulation so that the consumers can get power from the most economical source would then pick winners better than the government would, and privatization or sale of the power marketing administrations such that everybody is competing on a level playing field and you do not have private sector utilities trying to compete against public sector utilities which have tax deductions, they don't pay taxes, they have access—more ready access, to hydropower, et cetera.

If you complete the deregulation process so that the consumer can make a choice, then I think you will see the dollars flow to the most economical energy source very quickly, and the others will either compete or die.

Mr. MOORE. I didn't want to seem overly cavalier in my answer.

Mr. KNOLLENBERG. The answers are appreciated.

Mr. MOORE. I just wanted to add that one of the frustrations in dealing with this issue, and I was thinking about this when you were speaking, is a lot of the issues we all at this table have been working on, to eliminate a subsidy, the businessman that gets that subsidy says what about that guy over there? He is getting a subsidy, too. It is very frustrating, because it is like taxing the guy behind the tree, not me.

One of the things I like about the Hoeffel idea is to de-escalate so we bring the subsidies down. You talk to the coal people, they say they are getting a dollar subsidy, we are getting 5 cents, bring us up to a dollar. We are saying bring them down, not up.

Mr. KNOLLENBERG. What about two other things? One is the PNGV——

My time has expired? You said I had unlimited. I need a new chairman. I will be very quick. Just a minute.

PNGV, the Partnership for New Generation of Vehicles, what is your feeling on that? I think I know your answer.

Ms. LANCELOT. Let's get rid of it.

Mr. MOORE. Ditto.

Mr. SCHATZ. I think if you look at the R&D done by the companies and the percentage that comes out of the government, they would do this on their own. It goes again to marketplace and consumer demand. If someone wants to buy a 80 mile per gallon car, someone will figure out how to make it. There are a lot of hybrid cars and fuel cells coming out already that are not subsidized, that the companies are doing it. The government is not subsidizing it.

Mr. KNOLLENBERG. Do you support that?

Mr. SCHATZ. Whatever the companies want to do, if they think it will sell in the marketplace, that is fine.

Mr. KNOLLENBERG. I think I have one last comment. Would you buy one of those vehicles, any one of you? Would you buy one? Would you purchase one of those vehicles, the ones that Mr. Schatz talked about, for example?

Mr. SCHATZ. If the price of gas goes up another 10 bucks.

Mr. KNOLLENBERG. It may have since we have been talking.

Mr. SPERRY. A, I wouldn't buy one of those vehicles right now. B, I don't think the Federal Government should subsidize the research in that area. But, C, neither do I think that government at either the Federal or State level should require automakers to manufacture those vehicles.

Mr. KNOLLENBERG. Thank you.

Ms. LANCELOT. I would like to add—this is not from my organization nor from any expertise at all—but I do think—isn't it Toyota or Honda, or maybe both, that already have them in the marketplace, and they didn't get a dime, as far as I know.

Mr. KNOLLENBERG. A hybrid vehicle.

Ms. LANCELOT. A hybrid vehicle, yes. No, they didn't get any money.

Mr. KNOLLENBERG. Battery powered combined with the other.

Mr. Chairman, you have been kind.

Mr. RYAN OF WISCONSIN. I am sorry, Mr. Knollenberg. I do want to give the other members a chance to ask questions.

Ms. Rivers.

Ms. RIVERS. Just to follow up that last comment, my understanding is, is the Japanese subsidizes the Prius at about $18,000 a copy. So in fact their government did underwrite the development of the technology and the distribution of the first few cars.

But I want to go back to something that I started a few minutes ago. One of you mentioned you are either for or against corporate welfare. I agree, which is why I have some difficulty with the definitional of vagueness we got into when we were talking about tax expenditures. What I want to hear from each of you is, some clarity on the policy each of you believes should drive review of the treatment of corporate welfare in the Tax Code.

What I am really interested in, because of the conversation that went on before, is whether or not the elimination of favored tax status, corporate welfare in the Tax Code should be predicated on the ultimate utilization of the proceeds from the changes or whether it should be used to address inequity, wasteful and anachronistic problems with that favored tax treatment. In other words, I am asking you whether the value is in the identification and elimination of corporate welfare on both sides of the budget structure or whether it is only important on the tax side when you determine how you are going to use the proceeds.

Ms. LANCELOT. Should I go first?

Well, first of all, we think that corporate welfare is a misuse of taxpayer dollars. Our definition of corporate welfare is Federal subsidies to business through direct Federal payments as well as tax breaks. We believe corporate welfare is unfair, whether it is Federal direct handouts or through the Tax Code and tax breaks.

Having said that, I have to say that—and this is very separate, very separate from corporate welfare as the entity of corporate welfare, which is wasting taxpayer dollars through direct subsidies and direct Federal handouts and tax breaks—but trying to plug into the other discussion about where that money should go, that certainly should not drive the definition or trying to get rid of corporate welfare. But we do believe—Taxpayers for Common Sense believes—we tend to “forget” about the $5 trillion debt, so we are very interested in paying down that debt.

Ms. RIVERS. As am I.

Ms. LANCELOT. I think it is not a bad idea to connect it in legislation, as Mr. Hoeffel did, where we identify these tax breaks and these direct subsidies, we actually like the idea of a lockbox where. It actually can go back to the Treasury.

Ms. RIVERS. The reason I am asking this is because I thought I heard some people saying if you are not going to save the money then you should let the inequity go on. You shouldn’t address it. I want to understand exactly if that is what people meant.

Ms. LANCELOT. Let me just clarify for my organization. Let me clarify that is not what we are saying.

Mr. MOORE. I endorse the provision of the Hoeffel bill that says that if we raise tax revenues through loophole closings then we ought to use that revenue for tax reductions elsewhere. The Federal Government has more money than it needs right now. We have got $200 billion in surplus tax revenues this year. We should not be in the game of raising taxes at this point of our fiscal history.

Ms. RIVERS. Excuse me, do you mean then that closing a corporate loophole, no matter how inequitable, constitutes raising taxes on the organization that enjoyed the favored tax treatment?

Mr. MOORE. I believe so.

What we ought to do—Congresswoman, I am not sure what your first year here in Congress was, but in 1986 we passed what I think was an excellent piece of tax legislation when we passed the Tax Reform Act, and we did in 1986 clean out a lot of the corporate stuff. If you think the Tax Code is bad today, you should have seen it pre-1986. You could get tax credits for bull sperm and windmills and ridiculous things. I would like to see that model used again, because a lot of things that I think you and I both view as being inequitable, it is a good model for getting rid of these, but also making the tax system work better and fairer for everybody.

Ms. RIVERS. Just so I am clear, if the money was going to be redirected to another use, you would not support the closing of the loopholes?

Mr. MOORE. That is right.

Ms. RIVERS. Mr. Schatz.

Mr. SCHATZ. I think I agree with Mr. Moore. Of course, our focus has always been on the spending cited, so the tax side, while the very obvious examples of wasteful tax breaks have been out there, the overall process is not something we have studied closely. So I am interested in looking at this further and maybe answering in further detail at a later date.

However, there is a point to be made when you are looking at only the tax side that a tax expenditure is less revenue to the government and when you close it you do get more money in. So you can look at it strictly from that basis.

You can also look at it from where you are talking about, the definition itself, and that is one of the things this Commission would probably struggle with more than on the spending side. Because the R&D tax credit I don't think anyone would consider as corporate welfare, because anyone can use it. But if you are talking about advanced technology where you are getting R&D money for specific projects being carried on already in the private sector, that is pretty close to a clear definition of corporate welfare.

Ms. RIVERS. Do you think if the company loses its favored tax status, no matter how inequitable that was, that that constitutes raising taxes on that company?

Mr. MOORE. They will have to pay more taxes, because they are not getting the break. So, by definition, it is a tax increase.

Ms. RIVERS. Mr. Sperry.

Mr. SPERRY. I think the question of how any savings from closing corporate welfare loopholes is used, rather than for paying down the national debt or for reducing taxes, is an important but separate issue. It may motivate some individual members to support the bill or oppose it.

The important question to look at in tax expenditures is, is this a loophole which is only available to a small number of corporations, or is this a legitimate cost of doing business? I think the research and development tax deduction was a very good example. Everybody can use it. It is a legitimate cost of doing business.

A specific tax deduction for, say, the dairy industry, that would be a corporate welfare.

I would hope that once they got the savings that, yes, they would use them for tax cuts, but that is a separate question.

Ms. RIVERS. Thank you, Mr. Chair.

Mr. GUTKNECHT [presiding]. My turn. I apologize. I wasn't here for most of the testimony. I had another hearing.

I want to, first of all, thank all of you for what you do every day. When I came to Congress in the 1994 election, I came here committed to eliminating corporate welfare, and then I found out how difficult that is. I will tell you that part of the reason I was interested in that—I want to get to a question, but, first of all, I want to compliment you for what you do.

I think it is important that we continue to put pressure on this, because the pressure from a lot of people who spend a lot of time up here on Capitol Hill is to expand loopholes. We all have different terms, but they see it as protecting their interests or advancing a particular cause, whatever the rationale. There are lots of rationales, and we have an amazing ability around this place to rationalize. So I thank you for what you do, and I thank you for your testimony here today.

I do want to get to another issue, because really back in the State of Minnesota—and this is something affecting every State, and it strikes me as something perhaps we should address, and I would like to have you at least explore this and maybe talk about it today and think about what we might be able to do at the Federal level—and that is where literally—and I say this because I am also an auctioneer. In fact, I am a little hoarse today because I did an auction last night for Ducks Unlimited. But what auctioneers do is they pit one against the other, and they bid things up.

A classic example of that happened several years ago when Saturn was in the process of looking at different places they were going to locate their new facility. It literally almost became an auction between various States and local governments in terms of how many different benefits they would provide. This has escalated, and it depends on the company now. With unemployment at virtually zero right now, that whole discussion has slowed down somewhat, but it is still out there, where States are pitted against each other.

Another example is with sports franchises. It really is almost sinful what some of these sports franchises are now doing, essentially extorting communities and States, saying unless you build me another $400 million arena or stadium or baseball field or whatever, we are going to pick up stakes and move somewhere else.

It really strikes me there should be something we can do at the Federal level to at least restrict the ability of these entrepreneurs or auctioneers, if you will, from being able to pit one State against the other with various tax benefits or other programs not available to anybody else.

I do agree with your assessment of the R&D tax credit, that if it is available to everybody, I think that is one kettle of fish. But when specific incentives are created for one entity that no one else in the world could take advantage of, it seems to me there ought to be a way that the Federal Government could at least—and my point of all of this is I think it would be a benefit to the State governments, because then they could say, hey, we can't do that. We are now restricted.

I just throw that out as an idea, and perhaps you would want to respond to that and think about that.

Mr. MOORE. I agreed with everything you said until the end. You are exactly right in your analysis of what is going on with these bidding wars, but I think that Congress should stay out of this. I think this is a real federalism issue.

I am a big believer to allow States to do stupid things if they want to, and that is what they are doing, stupid things. But with all due respect, I wish Congress would not stick their nose in this, because this is really an issue that the States are going to have to resolve themselves.

When I met with your Governor—what does he call himself, the mind or the body now—Governor Ventura, I said, look, if you want to attract businesses to your State, cut your corporate income tax. That is the single best way to get businesses to come here. These bidding wars are economically foolish, I think the evidence proves that, but I would be very opposed if the Federal Government got involved.

Mr. GUTKNECHT. Thank you.

Mr. SPERRY. I would second that, Mr. Chairman. Not all problems in the world can be solved by government, and even fewer problems can be solved by the Federal Government.

Mr. GUTKNECHT. I want to be sure I write that down. That is a great line.

Mr. SPERRY. A certain point you just have to back off and let the citizens take it up with their State capital.

Mr. GUTKNECHT. Thank you. Seriously, I have had more than a few disagreements with our Governor, but I think on this issue I am in strong agreement.

He made a comment about our baseball stadium—and personally I don't like indoor baseball, never have, but that is what we have. It is only 18 years old. He said, how many people would seriously talk about knocking down a school building that was only 18 years old and replacing it, especially at this enormous cost? For better or for worse, he and the legislature and I think the people of the State have said, hey, if you don't want to play baseball or football in this stadium, you will have to move.

When States and cities begin to say no, I guess I do agree with you, perhaps Federal Government should stay out of this. But it is frustrating, and particularly having been in the State legislature, to watch this being pitted against another State or another city.

In any event, I just want to say I have no further questions, but I appreciate what you are doing. Continue to keep the pressure on. We will continue to peck away and hopefully not make matters worse. I think if anything in this whole area, if I can take any credit, I think I can say since we have been here we have not made things a whole lot worse as it relates to corporate welfare. We haven't made it much better, though, either. But, again, thank you.

I would entertain another round. Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

Mr. Chairman, I have to say, being from Texas, I am a little reticent with this panel. I have to deal with the reproductive capabilities of bulls, the price of gasoline, and now talking about new baseball stadiums, being from Houston, I feel like I have had the trifecta here.

But I do have a few questions for the panel. I will try and avoid those.

If I could, though, ask a few broad questions and then some specific questions. We have had a recent run-up earlier this year in the price of oil and subsequently gasoline prices. Do you believe that is a result of subsidies in the Tax Code or research in fossil fuels, or do you think that is a market fluctuation that is occurring?

Mr. MOORE. I think it is market fluctuation. I think there are clearly subsidies in fossil fuels and all other areas of nuclear and non-nuclear research that I would like to see you get rid of, but I think the recent spike in prices is a result of OPEC and not a result of Federal subsidies.

Mr. BENTSEN. Would you consider things like the oil depletion allowance to be a corporate welfare, or is that just a provision in the Tax Code?

Mr. MOORE. I am not an expert on this, so I probably—my belief is this should be an allowable expense, just as when you are able to write off capital purchases. But, again, I am not an expert at this.

Mr. SCHATZ. Mr. Bentsen, I think the answer would be if it is available to the entire industry and not, say, Shell or Mobil or one specific company, it would be less likely to fall within the definition of corporate welfare based on Mr. Hoeffel's Commission or anything else. Then I think people at the table would be examining——

Mr. SPERRY. I think in the case of the oil depletion allowance that it is the type of tax break which is not available to, say, gold miners, copper miners, coal miners. Other people who extract mineral wealth from the ground do not enjoy a similar benefit, so I think the Commission may have a tendency to look at it as a specifically targeted tax break.

In answer to your earlier question about the run-up in the gas prices, I think that there certainly has been some market fluctuation, but I think you do have an example there of where Federal gas taxes are extracted from the driving public, and then we have reached the point where much of our highway program is a subsidy for the highway construction industry.

A number of years ago, I was in a committee hearing where they were talking about, well, we have completed the Eisenhower highway system, we have got everything going north and south, odd numbers going north-south, even numbers going east-west, but we don't have any good diagonal arterials across the country. At a certain point I think we need to stop laying pavement and cut the gas tax and let some of the drivers keep their money.

Mr. BENTSEN. Let me follow up on this, and so you know, I voted against the highway bill. There might have been 81 of us that did in the House, not the Senate. But I did so on budgetary reasons. I thought for some reason we decided to exempt highway programs out of that. Even though I come from a donor State, I thought we should have reallocated between donor and donee States, but instead we decided to reenlarge the pie. But we do dedicate the vast majority—and now all—at that time, the vast majority of the gas tax, and now we allocate all the gas tax to highway construction.

But you are arguing that that—would the panel believe that is not a function of the Federal Government in building the Federal highway system, interstate highway system, that that is just purely a subsidy of highway contractors and real estate developers to build roads where they see fit, as opposed to building a means of transportation for the general public?

Mr. SPERRY. Building the necessary transportation infrastructure is probably a legitimate function of government. Building extraneous transportation infrastructure when we have reached the point where we have all we need and more, it becomes questionable.

I think right now, when you look at the highway program in particular, it varies from State to State, but, quite honestly, those are, again, local issues. I would like to see Virginia spend money. I would like to see the Federal Government spend less.

Mr. BENTSEN. Well, a lot of this is there is reallocation of tax dollars back to the State where they are collected. They are collected at the Federal level. I guess what you would advocate is for us just to get out of the Federal highway system and turn this back to the States and let each State determine what they want to do in terms of building highways, including interstate highways, and then just have interstate compacts with respect to how highway 95 connects between Virginia and North Carolina, or I–10 connects between Texas and New Mexico, or 35 between Texas and Oklahoma? Would that be it?

Mr. SPERRY. The original intent when it was passed under the Eisenhower administration was the Federal Government would build it and the States would maintain it, and I think it was a very wise division of expenditure at that time. I think it is still a wise division of expenditure. I think we have reached the point where we can legitimately say that the Federal Government has completed its task within this agreement.

Mr. BENTSEN. Well, I would just add—and I hope we have another round because I have some other questions, I would just add that the country is somewhat larger or somewhat more populated today than it was back in 1952, would you agree?

Mr. SPERRY. Oh, yes.

Mr. BENTSEN. As a result, the demand on the highway system has presumably increased some since 1952. Would you agree with that?

Mr. SPERRY. I would agree with that. I would not say that there is absolutely no role for continued highway construction, but I do think that, as we have seen with many of these highway bills, we have gone beyond what is really necessary, and we are spending more than is necessary, and we are taxing the driving public in order to do so.

Mr. BENTSEN. Mr. Chairman, I don't want to take up more time. If there is going to be another round, I have a few questions.

Ms. LANCELOT. Could I just add one comment?

I agree with what Peter just said about the burgeoning of new highway construction. I think we have to remember or just be mindful that the existing infrastructure is in bad repair and there is not enough money going to the maintenance of what we already have. There is always a terrible story about the bridge that fell into the river, et cetera. So I think some of that money needs to be spent on maintaining what we already have.

Let me also be clear about my organization. That is really a personal viewpoint. My organization is narrowly focused on looking at wasteful spending. We don't go beyond that and talk about how money should be spent. We believe in government. We believe in good government. We believe in the wise use of tax dollars. But we also believe that there are many organizations around the country that have their views of how money should be spent, and we allow them to be part of that debate. We simply just look and stop at the waste.

Mr. BENTSEN. Your viewpoint is not all of the highway program is—I mean, I grant you there are some add-ons on there that are highly questionable as to whether or not they meet in the national transportation program, but is it 2 percent, is it 5 percent, or is it 100 percent? Mr. Sperry seems to indicate maybe 100 percent, if I understand, or let the States just decide.

Mr. SPERRY. I would not say it is 100 percent. I would say, though, that we are reaching the point where it is probably over 50 percent. I think also that when you look at this you do have to ask at what point does a contract become a subsidy? I think maybe this was, you know, an area where some disagreement could be there. But if you are letting out a contract for a project which is unnecessary, is that a subsidy?

Mr. BENTSEN. Thank you.

Mr. Chairman, I will yield back to you and wait for another round.

Mr. RYAN OF WISCONSIN. Mr. Hoeffel and I have no further questions, so we can just do a second round for you to go ahead.

Mr. BENTSEN. That is an interesting question. I am not going to go into that. I think maybe in the economics department maybe you can do that.

I have to say, some of you do remind me of a graduate school professor of mine who said he wanted to be a Fed Governor because all he would do is go in in the morning, check in, pick up his Wall Street Journal and then play tennis for the rest of the day, and I think some of you all fit in that mold. He was a strict monetarist. I don't think there are any at the Fed right now. But you don't have to answer that question.

I do have a question with respect to Fannie Mae and Freddie Mac. I think there is a subsidy. I think the subsidy occurs by an implicit guarantee. However, I think that is pretty well determined. However, the debate has been over how much of that subsidy is passed on to the intended beneficiary, in this case American home buyers, above the level where there is a direct government subsidy or indirect government subsidy through the Federal housing administration program.

In both instances, neither of the programs, neither the GSE program nor the FHA program, single-family program at least, result in any direct Federal dollars subsidizing.

How does that type—if that is corporate welfare, if you are defining that as corporate welfare, how does that comport with a direct Federal appropriation? Is it a distortion of the marketplace that is your concern? And if in fact the program is working to provide a subsidy to home buyers, why should we be against that? Should we rather live in the perfect world where you are at the whim of the market and constant fluctuations in price, constant fluctuations in interest rate costs, and what good necessarily is that for the market?

Finally, I just have to say, because I have sat through hours of hearings on the House Banking Committee on this issue, I really think that this idea of—Mr. Ryan, I don't want to speak for Mr. Ryan; he can have his own opinion on this—but I think really this idea of trying to compare GSE debtor Fannie and Freddie debt to Treasury debt is misguided. I think it is really apples and oranges. Because you have different levels of leverage, you have different assets than you do to other types of corporate debt. It is clear on the face that it is not full faith and credit debt, although I will grant you that the market views the implicit guarantee as something that the Federal Government is not necessarily going to walk away. But I also think the reason why you are seeing the market look at GSE debt is they are looking for some stability as an indicator of how to set rates.

I don't know that that is all that bad, and I don't think—I think the argument that those who see a problem here are trying to make is that this will result in excessively cheap money going to the GSEs, which, in turn, will seek more risky returns with that cheap money, ultimately to the detriment of the taxpayer. I am not sure that nexus exists there, because they do have a fairly narrow definition of where they can put their money, and there is a limitation on the mortgage market, both legislatively as well as what will be there.

But to my original question, is a subsidy in that effect bad if it doesn't involve dollars?

Mr. MOORE. I would love to have lunch with you sometime and really thrash this thing out, because I think it is a very important issue, and there are a lot of complexities here. It is not a simple issue. And you are quite right, this isn't like a subsidy that is a direct appropriation.

You asked about, for example, who gets the benefit. Certainly some portion of this benefit does go to the homeowners in terms of lower interest rates than otherwise would be charged. The Congressional Budget Office and the General Accounting Office have called this a spongy conduit by which they mean that this is—I described this as sort of a trickle-down housing policy, that it takes for every dollar you are putting into this only, you know, maybe 50 cents is actually trickling down to the actual homeowner.

I do believe that this is a form of corporate welfare, even though it is not a direct appropriation, you are quite right. I am very worried, and I think Congress should be very worried, about the incredible expansion of debt that is being taken on at the GSEs. You are right, they are not exactly comparable to Treasury debt. But these have tripled in the last 10 years without anyone taking much notice of it.

There is very solid evidence, Congressman, and I would love again to sit down and talk with you more about this, that this is a real danger to our financial markets. As long as things go swimmingly, we are fine. If there were some problems in the housing market, you would see, I don't think—I know you are the one here asking questions, but I would sort of pose a question to you, and that is imagine what would happen if Fannie Mae and Freddie Mac did come under financial trouble? Certainly you would agree, I would think, the Federal Government would step in and bail them out. They have done that in the past.

So that is why I am nervous about it. You are right, it is not exactly comparable to the national debt, but it is something we should worry about. I think it also does fall under the purview of some of this benefit going to the shareholders. That is why I consider it a form of corporate welfare.

Mr. BENTSEN. That is a legitimate question, and no one has defined what those numbers are yet. But we are talking about asset-backed debt. This is not equity, this is not even Treasury debt that is backed by the assets of all of us here, but it is asset-backed debt. We have had fluctuations in the housing market, we went through the 1980's in Texas, for instance, and the early '90's in California and New England where there were troubles. But, arguably, Congress has also responded to that with the 1992 act in creating OFHEO, which was charged with creating sort of a rating standard, rating criteria to look at the portfolios behind them. But it is a tough question. But I don't think it is as simplistic as that.

Mr. RYAN OF WISCONSIN. If I might just interject something, Mr. Bentsen, since you invoked my name, I agree with you. I don't think GSE debt is the same as Treasury debt, and I think it would be wrong for us to make that assumption as Members of Congress, because I would hate to make an implicit guarantee, an explicit one, through our comments.

But I think a valid concern to look into is the excess debt that the GSEs are piling on top of their mission-critical debt. I think it is important to note their debt will increase as the housing market increases, as the secondary mortgage market increases, which is their mission. Obviously, that debt is going to increase.

My concern is when you look at other things the GSEs are doing, such as repurchasing mortgage-backed securities, piling on excess debts on top of that, does that debt go toward putting somebody into a home or go toward shareholders? I really don't know the answer to that question, but you think that is a very valid question to ask. I do not think it is the same debt as Treasury debt. You are right. It is asset-backed.

Mr. BENTSEN. If the gentleman would yield, or whoever's time it may be, the question is whether or not the repurchase of secondary—the repurchase of asset-backed debts in the secondary market enhances the liquidity in the secondary market and thus transcends a better rate to the primary market, which one would argue, and also whether or not that fits within the function of the GSE. So it is a complicated question. But I don't think you can just argue that supporting the secondary market through the repurchase of asset-backed debt is necessarily outside the mission of the GSEs, and it is asset-backed debts.

Mr. RYAN OF WISCONSIN. That is a very good point. Given the fact we believe, all of us, that this implicit guarantee exists and therefore a bailout would occur, as has happened in the past, it is a new form of risk. It is an interest rate risk on the books, a prepayment risk which does pose an additional risk to the taxpayer should interest rate fluctuations occur that weren't anticipated, if they are not hedged properly. So those raise new questions. I think that Mr. Moore's comment is valid probably in that context. But I don't think we would equate GSE debt to Treasury debt.

Were there any questions?

Mr. SCHATZ. I just have a quick comment.

First of all, I will be testifying on Fannie Mae-Freddie Mac next week, so I could do it here, but clearly we have run out of time.

Second, I think the fact that it has been brought up shows there are very legitimate questions about this as it relates to the budget, as it relates to their mission, as it relates to the future of what the benchmark would be. These are all things that should be explored.

So that was my comment. I appreciate your interest very much, Congressman.

Mr. SPERRY. I think the GSEs are obviously a very complex issue, and determining whether or not they were specifically corporate welfare would be the work of a Ph.D. dissertation, as it would be to determine whether excess contracts are indeed corporate welfare. But I think in the terms of this Commission that is being proposed under the legislation being considered that they probably would not—you would probably not want to include either of those subjects simply because it would quickly end up dominating the commission and you would never—its work would never be completed. The Commission should probably be more focused on the traditional forms of corporate welfare, subsidy, tax breaks. That will be more than enough to keep them occupied throughout the life of the Commission.

Mr. RYAN OF WISCONSIN. With no further questions——

Mr. HOEFFEL. No questions. Thank you, Mr. Chairman.

Thank you, panelists, for being here. You have given us over 2 hours, and we have all learned from you. I thank you for that.

Mr. Chairman, thank you for your cooperation.

I think Ms. Lancelot said this needs to be a two-pronged attack. We need a commission or some kind of a mechanism, but we need to keep going after these projects in the appropriations process. I certainly will pledge my support to temporary Chairman Ryan and permanent Chairman Kasich to cooperate on that during this year. Thank you all very much.

Mr. RYAN OF WISCONSIN. If there are no more questions, I would like to thank the witnesses for your thoughtful testimony and spending the time with us today.

This hearing is adjourned.

[Whereupon, at 2:05 p.m., the committee was adjourned.]