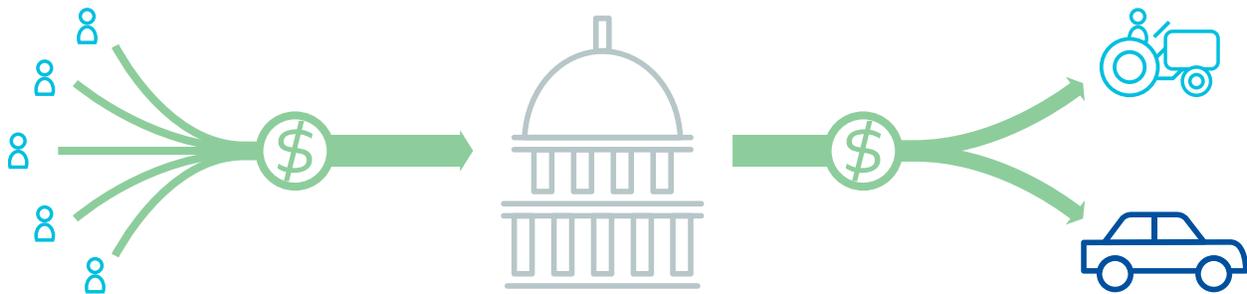


# SPENDING SUBSIDIES 101

How Are Politicians and Bureaucrats Spending Your Tax Dollars?

Each year, Americans send their tax money to Washington to fund the federal government. This money pays for things like the military, highways, and our judicial system. What many Americans don't know is that politicians and bureaucrats also divert tax dollars to their favorite interest groups. When this happens, it is called cronyism. When it happens in the form of a cash payment, bailout, loan, or loan guarantee, it falls into the category of a "spending subsidy." Spending subsidies are one of the most clear-cut ways government gives handouts to politically powerful people and businesses.



## Why are spending subsidies harmful?

In addition to the inherent unfairness of taking taxpayer money and doling it out to only a favored few, these policies hurt consumers and workers. Rather than rewarding businesses for serving customers with better products or services at lower prices, subsidies often serve political goals. As a result, subsidized businesses gain an unwarranted competitive advantage and non-subsidized businesses are excluded from opportunities to grow and hire new workers. Also, subsidies erode incentives for businesses to meet the demands of the economy, causing them to focus on lobbying and glad-handing instead of innovating.

### AUTO BAILOUTS

The recent financial crisis led to all sorts of bailouts, including ones for Wall Street, homeowners, and even the auto industry. The auto bailout left a lasting mark on the domestic car industry after the federal government poured billions of dollars into the businesses of GM and Chrysler, which both went bankrupt in 2009. This bailout allowed the government to give special treatment to favored groups instead of upholding the legal rights of those who owned the companies' debt. Ultimately, taxpayers lost a staggering \$17 billion.<sup>1</sup>

### FARM SUBSIDIES

Every year, the federal government provides subsidies to the agricultural industry through a complex set of programs like crop insurance. While proponents generally claim that these subsidies are needed to help struggling farmers, who would otherwise see their businesses shuttered, the reality of who receives the payments and other protections is quite different. Far from being just a temporary safety net, most farm subsidies are corporate welfare for the industry's top farms. For example, from 1995-2014, 75 percent of USDA subsidies went to only 10 percent of recipients.<sup>2</sup> And in 2014 alone, almost 66 percent of commodity program subsidies went to farms with gross cash farm incomes (GCFIs) of \$350,000 and above.<sup>3</sup> One third of subsidies went to farms with GCFIs of \$1 million and above.<sup>4</sup>

1. <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51378-TARP.pdf>  
 2. <https://farm.ewg.org/progdetail.php?fips=00000&progcode=total&page=conc>  
 3. [https://www.ers.usda.gov/webdocs/publications/eib146/55641\\_eib146.pdf?v=42495](https://www.ers.usda.gov/webdocs/publications/eib146/55641_eib146.pdf?v=42495)  
 4. Ibid.