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# Rethinking corporate welfare: Unpacking its meaning and misconceptions

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**Abstract**

The main goal of the article is to propose a new definition of corporate welfare, a concept coined in the 1970s to describe the state's support for entrepreneurs and counterbalance criticisms of the welfare state. Based on a critical review of the literature on historical origins and existing definitions, a new approach has been proposed, which offers objectivity, applicability, and integration with the concept of social welfare. Moreover, clearly embedding the concept of corporate welfare within the theory of market and state failures links the new definition with the existing theory of public economics and institutional economics. The discussion of corporate welfare is exemplified by two case studies to illustrate the boundaries of the proposed definition and demonstrate the adequacy of the theoretical framework (available in Appendix C).

**Keywords**

- corporate welfare
- market failure
- public policy
- welfare state
- state aid

**JEL codes:** H53, H81, I38, P16.

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## Introduction

Recent years have seen a growing role for the state in contemporary mixed economies and increasingly bold actions undertaken by governments all over the world to support businesses to survive and thrive. Notable examples include rescue packages prepared to counteract the detrimental economic consequences of the COVID-19 pandemic or industrial policies intended to bolster the resilience of strategic sectors in response to the growing volatility and fragmentation of the global economy (Evenett et al., 2024; Juhász et al., 2023). It seems that the historical pendulum swinging between the free market and the active state is again leaning towards interventionism (Gills, 2008). Obviously, this raises valid questions about the reasonability of public funds spent to support businesses and individuals.

Importantly, none of these issues is new in public debate: discussions about tensions between the welfare state and support offered to business have been ongoing at least since the 1970s, when the concept of corporate welfare was coined and introduced to public debate (Olson & Champlin, 1998) to counterbalance ideas known as the welfare state. However, for some reason, this concept still does not receive sufficient attention from academics and politicians (Farnsworth, 2013). As can be observed in Figure 1, the simple comparison of some buzzwords searched in Google produced by Google Trends confirms that corporate welfare is not especially popular.[2] Google Trends compares the relative popularity of selected topics in a given period, with a value of 100 being assigned to the topic and day with the highest number of searches within a given timeframe. The popularity of all other topics on all other days from the analysed period is compared to this reference value. Figure 1 reveals that in the last five years, ‘industrial policy’ has been more popular than ‘sharing economy’, ‘political capitalism’, and definitely much more than ‘corporate welfare’.

Despite the discussion about the meaning, scope, and reasonability of corporate welfare having a long history (Egan, 2004) and remaining lively (Bulfone et al., 2023; Klebaner, 2024), it still receives insufficient attention from academics and experts. This study attempts to narrow this gap. Two main hypotheses considered in the article are as follows: (1) existing definitions of corporate welfare are imprecise and impractical; (2) the market failures theory is sufficient to explain and justify the state’s interventions denoted as corporate

[2] Regardless of the outcomes presented in Figure 1, the concept of corporate welfare was also compared with topics such as welfare state, cronyism, state aid, interventionism, trade war, and cryptocurrencies. In all cases, the popularity of corporate welfare was many times lower than that of all other topics taken into consideration.

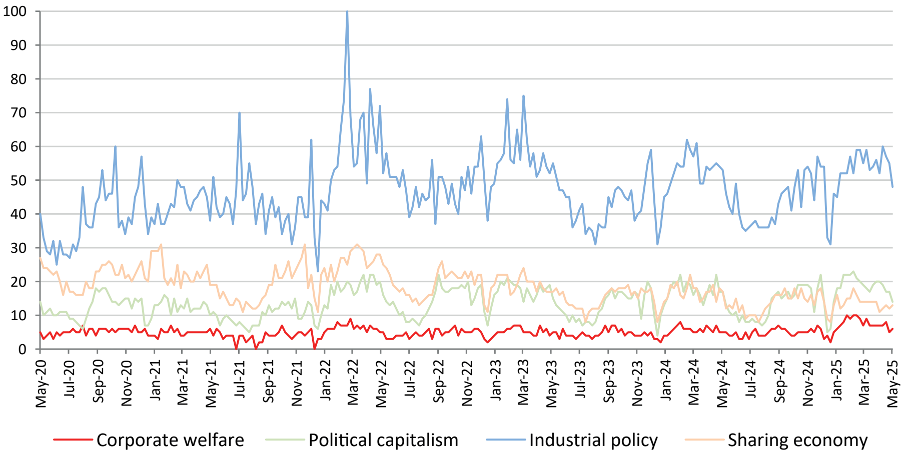


**Figure 1. The relative popularity of corporate welfare in comparison to selected topics in the last 5 years**

Note: Data retrieved on 13 May 2025. Numbers show the relative popularity of all topics—the number of searches of a given term on a particular day is compared to the highest number of searches among all terms during the selected time span.

Source: Google Trends.

welfare. The main aim is to establish a new definition of corporate welfare, based on a thorough analysis of definitions that can be found in the literature.

The main value added of this research is twofold. Firstly, providing a more precise and objective definition will allow for fruitful and conclusive discussions and empirical analysis of corporate welfare. In order to properly measure and assess corporate welfare activities, it is necessary to use an operative, objective, and coherent definition. In this sense, this article may affect all subsequent research on this topic. Secondly, by explicitly incorporating corporate welfare into the theory of market failure, the study clarifies the justification for state intervention in this area. Welfare economics clearly defines the conditions of justified intervention and underscores some risks entailed by the state's activity.

The rest of the paper is organised as follows. Section 1 outlines the origins of the corporate welfare concept, presents existing definitions of corporate welfare, and discusses the drawbacks of the approaches proposed in the literature. A revised definition of corporate welfare is proposed in Section 1 as well. The subsequent Section 2 tends to locate the corporate welfare concept within the framework of the market failures theory and welfare economics. Finally, the conclusion summarises the main findings and proposes some pathways for future research.

# 1. Corporate welfare: Peculiarities of the concept

The literature reveals numerous misunderstandings and incoherencies concerning the concept of corporate welfare. Different authors use various terms to name more or less the same phenomenon: some refer to 'shadow welfare' (Abramovitz, 1983; Titmuss, 1965) or 'phantom welfare' (Huff & Johnson, 1993) to describe the problem researchers such as Farnsworth (2013) or Dawkins (2002) classify as corporate welfare. Theoretical complications amplify when we consider relations between corporate welfare and concepts such as industrial policy, developmental state, and state aid.

The relative scarcity of academic studies concerning corporate welfare and the ambiguity of this concept justify an attempt to reconsider the definition of corporate welfare more thoroughly. At the same time, since the active role of the state seems to be gaining importance, reassessing the concept of corporate welfare becomes particularly relevant. This concept was originally formulated as both a complement and a response to the discussion on the efficiency of the welfare states. Hence, it is vital nowadays given that the global economy faces multiple challenges that require an active response from the state.

The following section discusses the historical origins of the corporate welfare idea and present selected attempts to define this concept. Finally, Section 1 proposes a novel definition of corporate welfare.

## 1.1. Origins of the corporate welfare concept

According to Dawkins (2002), one of the earliest uses of the term 'corporate welfare' in the public debate appeared in a *Washington Post* editorial in 1981, where corporate welfare was negatively depicted as wasteful usage of public resources for business subsidies. However, Farnsworth (2012) indicates that the origins of the term can be found in the political activity of Canadian left parties from the 1970s. David Lewis, a former leader of the New Democratic Party in Canada, was probably one of the first to use the term 'corporate welfare' to express his concerns about the benefits derived by corporations to the detriment of ordinary citizens. Meanwhile, Ralph Nader, an American politician and activist, ran a series of campaigns criticising corporate welfare. He summarised his negative attitude towards benefits provided by the government to powerful and influential corporations in his 2000 book (Nader, 2000). Notably, the term 'corporate welfare' was initially coined and used as a response to ambitions to retrench the post-war welfare states. Hence, its original connotations were purely pejorative.

Bader et al. (2003) explain that the problem of unequal treatment of business and citizens is strictly linked to the history of income taxation. When income taxes were introduced, the burden of contribution was primarily concentrated on affluent corporations and individuals. Although income taxes evolved after World War II and became mass taxes rather than class taxes, they were still noticeably progressive. According to Bader et al. (2003), an important change occurred in 1967, when the concept of tax expenditures was formulated. In subsequent decades, numerous exclusions, exemptions, deductions from gross income, and preferential rates were extensively used by powerful corporations to minimize their tax burden. The evolution of the tax system also drew more attention to the concept of corporate welfare and stimulated more academic research on this issue.

Titmuss (1965) was one of the first to note that the redistributive policy of the state is a much more complex issue than initially seems. He distinguished three fundamental categories of social policy: social welfare, including all traditional services provided for individuals (e.g., health care and education); occupational welfare (all facilitations and benefits connected with the labour market), and fiscal welfare encompassing taxation policy of the state. Titmuss noted that the traditional understanding of the welfare state is only a visible part of a more complex construction that can be dubbed the 'shadow welfare state'. He argued that the accumulation of numerous disjointed programmes with incoherent definitions, various goals, and differentiated eligibility criteria tends to benefit relatively well-situated individuals most. This conclusion was in line with the observable effects of tax exemptions introduced and popularised more or less around the time of Titmuss's writing.

Observations raised by Titmuss inspired many authors. Abramovitz (1983) criticised the tax system as a platform for the redistribution of resources from the poor masses to the wealthy and influential individuals. Moreover, she directly referred to corporate welfare, claiming that "like individuals and families, corporations ask for and receive welfare through both direct government outlays and tax expenditures". This strand of analysis was continued by Huff and Johnson (1993), who highlighted that governments are relatively keen on restricting social programmes for poor individuals, whereas, at the same time, they expand the generous support for the upper classes and business. A similar line of reasoning was repeated in the follow-up article by Abramovitz in 2001, where she points out that support schemes provided for poor citizens are visible, which makes them an easy target of criticism. By contrast, corporate welfare is less transparent, enabling it to flourish much more easily. Abramovitz claims that this makes welfare states both undemocratic and unfair (Abramovitz, 2001).

Scholars such as Titmuss (1965), Abramovitz (1983, 2001), and Huff and Johnson (1993) shed light on the dichotomy between broad tolerance and benevolence associated with corporate welfare initiatives on the one hand,

and reluctance towards social programmes on the other. Olson and Champlin (1998) investigated the cultural origins of this discrepancy, arguing that the 'dual structure of welfare' is deeply rooted in a cultural dualism prevalent in Western societies. In this view, all activities linked to the economic sphere are naturally perceived as more legitimate and important than those associated with the family. Consequently, public perceptions of welfare conjure up images of poor, needy individuals unable to deal with adversities on their own. This negative view is never applied to corporations: these are invariably perceived as independent, dynamic, and thriving. As a result, state resources provided to businesses are framed as 'investment', not as welfare support, and as incentives for business, not state handouts. It is by highlighting this linguistic double standard that made the observations of Titmuss (1965) and later researchers so influential.

In subsequent years, a negative sentiment towards the concept of corporate welfare still dominated the academic and political debate, with clear-cut examples being provided by researchers from the CATO Institute, an American libertarian think-tank (DeHaven, 2012; Slivinski, 2007). Interestingly, this strand of literature presents a substantially different critique of corporate welfare than the leftist authors evoked above: since all state interventions disrupt the natural functioning of the free market, corporate welfare is also perceived as adverse (Egan, 2004).

Contemporary studies often propose more nuanced and balanced assessments of corporate welfare (Bulfone et al., 2023; Bürbaumer & Pinsard, 2025; Farnsworth, 2013; Klebaner, 2024). In a recent work, Farnsworth advocates a holistic approach towards the whole-economy public and social policy of the state, treating corporate welfare as a part of a more comprehensive welfare mix (Farnsworth, 2019). The ongoing debate concerning corporate welfare becomes even more inconclusive when we take into consideration the experiences of the financial crisis from 2008, attempts to deal with the economic disturbances induced by the COVID-19 pandemic, and all other global challenges recently faced by societies. The expanding role of state involvement in the economy is regaining prominence in the mainstream (Gills, 2008; Juhász et al., 2023; Kattel & Mazzucato, 2018), and is obviously relevant to discussions regarding corporate welfare.

## 1.2. Definition of corporate welfare

We can distinguish two basic approaches to the corporate welfare concept that delimit two extreme positions toward this phenomenon.[3] The definition proposed by Farnsworth (2013) denotes corporate welfare as all benefits and services provided by the government to satisfy businesses' needs in a direct and indirect way. This definition is evoked by such authors as O'Connor and Sweeney (2016), and interestingly, corporate welfare is also similarly defined in the Oxford Dictionary. Since this understanding of the corporate welfare concept is extremely broad, we might call it 'the maximalist approach'. Importantly, Farnsworth (2013) argues that most policies introduced by governments serve both citizens and corporations to some extent, and consequently contain elements of corporate and social welfare. This observation provides a basis for defining the socio-economic continuum, allowing for ordering particular interventions according to their prevalent nature and goals (from the most social to the most corporate beneficial). Farnsworth maintains this approach in his subsequent study (Farnsworth, 2021). Moreover, the definition of corporate welfare applied by Klebaner (2024) also can be considered extremely broad: he argues that any transfer of public funds or power to businesses should be deemed corporate welfare.

On the other hand, Schlomach et al. (2019) define corporate welfare as 'any financial benefit purposely granted by the government to a specific business or class of businesses and that is not generally available to all businesses and taxpayers'. The authors formulate two auxiliary questions that allow corporate welfare activities to be identified more accurately. In their opinion, if a given measure is not uniformly available to every business in every industry and simultaneously does not put the recipients on an equal footing with similar firms, then we can conclude it is corporate welfare. Crucially, Schlomach et al. (2019) claim that all tax provisions that can be viewed as economically efficient and justified should not be related to corporate welfare. This means that they implicitly introduce an additional condition that has to be fulfilled by a given measure to be deemed corporate welfare—it must be economically inefficient. The multilayer definition proposed by Schlomach et al. (2019)

[3] Some authors use the term 'corporate welfare' to describe a broad spectrum of programmes and facilitations offered by entrepreneurs to their employees. For example, Darrough et al. (2019) analyse the relationship between employee-welfare policies proposed by entrepreneurs (denoted in their research as corporate welfare) and changes in firms' productivity induced by the introduction of unemployment insurance benefits. On the other hand, Stoesz (1986) used the term 'corporate welfare' to describe market initiatives aimed at providing some social services for individuals (e.g., private nursing homes, health maintenance organizations, entrepreneurs offering childcare). He called it the 'third stage of welfare'.

is restrictive; thus, it can be dubbed the minimalistic approach to the definition of corporate welfare.

Bulfone et al. (2023) also proposed a definition of corporate welfare that can be perceived as restrictive. Their approach is founded upon the concept of conditionality. In their view, if the state demands particular behaviour from the business and support is granted only when this condition is fulfilled, the state's intervention does not constitute corporate welfare. However, when support is granted unconditionally, it should be considered corporate welfare. This approach is presented as a direct response to the weaknesses of the far-reaching definition formulated by Farnsworth (2013). This definition has been evoked recently by other authors (Bürbaumer & Pinsard, 2025). Notably, Klebaner (2024) alludes to the definition formulated by Bulfone et al. (2023) and embraces the concept of conditionality in his understanding of corporate welfare.

Both approaches presented above are prone to criticism. The definition of corporate welfare popularised by Farnsworth (2013) seems too far-reaching. If we accept the concept of the socio-economic continuum and admit that each governmental programme can be partially dedicated to supporting business and individual citizens, then virtually every initiative undertaken by the state can be deemed corporate welfare on the grounds of the maximalist definition. It is likely that all policies, even those with clear social goals, at least marginally affect business and satisfy business needs. This observation makes the maximalist definition of corporate welfare difficult to use, a flaw noticed by Ruane (2013) in her comment on Farnsworth's article. In it, she pointed out that, according to Farnsworth's view, corporate welfare also encompasses an effective legal system or police forces protecting corporate assets because these provisions are also a form of response to some general business needs.

Minimalist definitions of corporate welfare face two main drawbacks: the pejorative meaning many authors assign to the concept, and the impracticality stemming from the excessive specificity of the proposed definitions (Farnsworth, 2021). Schlomach et al. (2019) assume that all corporate welfare measures are economically inefficient and should be automatically condemned on these grounds. This renders this minimalistic definition not only non-neutral but also less operational; it suggests that we should systematically consider the efficiency of each particular financing measure to decide whether it constitutes corporate welfare or not. In reality, states often actively support businesses in their R&D efforts, seeking to spur innovations, regardless of the fact that many individual projects supported with public resources ultimately prove to be failures. For example, an investment in new green technologies may seem inefficient from the point of view of individual projects, but such an endeavour very often entails important social and environmental spillovers, making it justifiable from the broader perspective (Rodrik, 2014). Government subsidies to support such investments should certainly be treated as examples of corporate welfare, but should not be automatically disregarded, even though they may be inefficient from a purely economic perspective. Similarly, Bulfone et al. (2023) argue that all quid pro quo relations between business and state should be excluded from the scope of corporate welfare. At the same time, they regard all unconditional forms of support as signs of state weakness. This makes their definition clearly pejorative and difficult to apply in practice. Moreover, linking the definition of corporate welfare to conditionality seems to be questionable if any resemblance to the concept of traditional social welfare is to be maintained.[4] In the case of traditional welfare programmes addressed to individuals, conditionality is treated as a non-mandatory feature, not as an essential, intrinsic part of the definition. For example, although cash transfer programmes such as Brazilian Bolsa Família or Mexican Progresa are based on conditionality, they are univocally accounted as social welfare programmes (Bergstrom & Dodds, 2021). Similar reservations apply to the definition proposed by Klebaner (2024), since it builds on and extends the approach of Bulfone et al. (2023).

Obviously, in the literature we can find other attempts to define corporate welfare, and these can usually be situated somewhere between the two extreme approaches described above. Dawkins (2002) claims that 'any government subsidy to business, (…), that provides unique benefits or advantages to specific companies or industries for activities they may generally be expected to perform for reason of profit' should be deemed corporate welfare. Crucially, Dawkins explicitly excludes measures available to all companies in all industries from the definition of corporate welfare. DeHaven (2012) does not explicitly define corporate welfare, but concentrates his analysis on direct and indirect subsidies granted to small businesses, large corporations, and industry organizations. DeHaven also mentions tax preferences, regulations, and trade barriers as other forms of corporate welfare. Slivinski's definition (2007) is more concrete; in his opinion, any federal spending programme that provides payments or unique benefits and advantages to specific companies or industries can be understood as corporate welfare. Notably, some authors deliberately exclude all tax-based measures from the scope of corporate welfare (McGee, 2003). Finally, Angresano (2016) uses the corporate welfare concept to describe the contemporary economic system of the United States. He evokes definitions proposed by Slivinski (2007) and Nader (2000), using them to list the characteristics of the corporate welfare economy. Importantly, his assessment of corporate welfare and the corporate welfare economy is clearly negative.

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[4] As shown in Section 1.1, the perception of traditional social welfare and corporate welfare is clearly divergent (so-called dual structure of welfare), which is misleading and unfair. The parallel between those two categories of welfare seems to be a necessary condition to alleviate this unjustified distinction.

Some definitions found in the literature (Farnsworth, 2012, 2021) emphasise deeply-rooted similarities between corporate and traditional welfare and define the corporate welfare concept in accordance with the traditional understanding of the welfare state. These definitions underscore the role of corporate welfare measures in socializing the costs and risks associated with natural market-based activities undertaken by businesses. In this sense, corporate welfare is similar to the state's traditional social welfare activities, which seek to protect individual members of society from unexpected but natural risks that may be encountered during their lifetime.

Consequently, in order to ensure analytical usefulness and maintain consistency with traditional welfare, a new definition of the concept of corporate welfare seems necessary. It is proposed that corporate welfare should be understood as: *(1) any state action that has a positive impact on businesses, (2) grants them a privileged position, and (3) is primarily aimed at supporting businesses or protecting them against various types of market risk.*

The proposed definition offers several distinct advantages over the other definitions of corporate welfare discussed above.[5] Firstly, by assuming that corporate welfare grants a privileged position to its recipients, the proposed definition excludes all universal activities of governments, especially all legal provisions determining the general rules of market functioning, concluding contracts, starting and running a business, as well as all universal institutions, such as a stable financial system, efficient judiciary, and police forces. Crucially, however, it includes horizontal measures applicable to particular sectors or groups of companies distinguished by particular characteristics. The recipients of horizontal corporate welfare measures are treated preferentially compared to all other businesses that did not obtain a similar support. In this sense, the proposed definition is robust to the concerns raised by Ruane (2013) and coherent with the approaches proposed by Dawkins (2002) or Slivinski (2007). Secondly, the proposed approach is free of any a priori value judgments; it does not automatically equate corporate welfare with cronyism, corruption, or other negative phenomena. Instead, it acknowledges that some corporate welfare measures may be socially desirable, well-conceived, and efficient, while others may be unjustified and wasteful. In this sense, the definition proposed above stands in opposition to the approaches of Schlomach et al. (2019), Angresano (2016), and Bulfone et al. (2023). Thirdly, it is not limited to subsidies understood as positive transfers, which means that all forms of preferential tax policies can also be deemed corporate welfare. This stands in stark contrast to definitions employed by McGee (2003). Ruane (2013) noted that incorporating corporate welfare into the broader discussion of public provision of welfare elevates the importance of tax policies. Since tax-related

[5] Selected definitions of corporate welfare are presented and discussed in Appendix A.

measures constitute an important part of the support provided to businesses, it does not seem reasonable to disregard them in the definition.

One important clarification should be made at the end of this section. Although terms such as business, firm, corporation, company, and entrepreneur have distinct meanings, they may all refer to potential recipients of corporate welfare. Most authors employ the concept of business to denote the set of entities that benefit from corporate welfare (Dawkins, 2002; Farnsworth, 2013; Schlomach et al., 2019), as it is the most encompassing term. Accordingly, the definition proposed above also adopts this term to identify the recipients of corporate welfare. Notably, both sole proprietorships and state-owned enterprises may qualify as recipients of corporate welfare. As such, ownership structure and scale are irrelevant in the context of corporate welfare.

## 2. Rationale of the corporate welfare interventions

After defining the concept of corporate welfare, it is natural to consider the prerequisites of such state interventions. It seems that the traditional theory of welfare economics and the concept of market failure are sufficient to explain the reasonability of corporate welfare in most cases. Both Slivinski (2007) and Milke (2007) refer to market failure theory to indicate the typical justification of corporate welfare programmes. Similarly, Bennett and DiLorenzo (1982) use this theory to explain the reasonability of industrial revenue bonds issued by local governments of the United States. Notably, some authors use the market failures framework to justify industrial policies (Juhász et al., 2024; Piechucka et al., 2023) or entrepreneurship policies (Bennett, 2025). Taking into account the close correspondence of the mentioned concepts and corporate welfare, this argument appears particularly suitable.

The subsequent section offers a concise summary of arguments raised in the literature to explain the rationale of the corporate welfare activities. The goal of this section is to provide a general justification for state interventions denoted as corporate welfare and explain when such activities become inefficient.

### 2.1. Corporate welfare and market failures theory

Two basic principles of welfare economics provide key guidelines for state intervention. According to the First Fundamental Theorem of Welfare Economics, a well-functioning market economy tends to lead to a Pareto-efficient equilibrium in the allocation of resources. Consequently, state intervention is required only when market competition does not function efficiently, i.e. when market failure occurs. Nevertheless, market failure is only a necessary, rather than a sufficient, condition for intervention; potential gains from intervention should always be compared with the costs of government involvement (arising from government failure). The Second Fundamental Theorem of Welfare Economics states that the choice of the initial allocation of resources can shape market forces in such a way that they lead to a Pareto-efficient equilibrium preferred by society. This implies that even when the market mechanism is efficient, state intervention may still be justified by the goal of changing the initial allocation of resources (Arrow, 1951; Arrow & Debreu, 1954; Stiglitz, 1991). These directives can also be applied to successfully justify interventions classified as corporate welfare. Stiglitz and Rosengard (2015) enumerate such market failures as imperfect competition, the existence of public goods, externalities, incomplete markets (or lack of markets), imperfect information, unemployment, and other macroeconomic disturbances. All these market imperfections can be applied to justify and explain the rationale of state interventions recognized as corporate welfare.[6]

For example, usually only a part of the external financing demanded by the businesses is provided by the market. Some businesses are assessed as too high-risk to be perceived as reliable clients for any market capital provider, resulting in typical market failure: the absence of financial markets for some entities. Underlying this is information asymmetry: capital providers know too little about the specificity of the given businesses to offer them acceptable financing. We typically refer to this imperfection as the 'finance gap' (Lin et al., 2022). All state interventions designed to facilitate access to capital are instances of corporate welfare; Australia's Innovation Investment Fund, or the de minimis guarantee programme offered by the Polish state, exemplifies interventions aimed at narrowing the financing gap.[7] The same rationale was used by Bennett and DiLorenzo (1982) to explain the theoretical foundations of industrial revenue bonds issued by local developmental agencies in particular regions of the United States. These bonds were intended to raise funds to finance small businesses with restricted access to capital.

Besides, states' efforts to spur innovativeness are classic examples of providing public goods that cannot be efficiently supplied by the market because the research or production costs exceed the potential gains for any single entrepreneur. However, when accounting for the positive spillovers

[6] However, it does not mean that the existence of market failures is a part of the definition of corporate welfare. As explained in Section 2.2. corporate welfare can appear even without market failures, but in such cases, its reasonability is much more difficult to defend on the grounds of the traditional theory of the state's intervention.

[7] The de minimis guarantee programme is described in more detail in Appendix C.

from the invention and dissemination of a given technology or good, public financial support proves to be socially beneficial. For instance, the invention of the COVID-19 vaccines by companies such as Pfizer/BioNTech, Moderna, or AstraZeneca would not have been possible without the injection of public funding; in the period up to March 2021, almost all of the USD 5.9 bn invested in researching and developing COVID-19 vaccines was funded by the United States, Germany, and other governments.[8] Fink (2022) estimated that the social benefit of COVID-19 vaccine innovation was indeed enormous and exceeded private benefit by a factor of 887. Not only vaccines but most dual-use or green technologies (Mazzucato, 2013; Rodrik, 2014) exemplify products that probably would not be invented without public funds, but once they are invented, they bring enormous benefits to societies.

The stimulus packages provided by governments all over the world at the time of the COVID-19 pandemic aimed to restore macroeconomic stability, preventing unemployment and bankruptcies. Particular instruments, such as preferential loans, tax deferrals, grants, and wage subsidies, were provided to reduce liquidity shortfalls and mitigate the risk of massive insolvencies (Ebeke et al., 2021). Moreover, the sizeable bailouts awarded to the banking and automotive industries during the 2008 global financial crisis were driven by the same logic: governments had to intervene on a massive scale to rescue the damaged sectors, sustain employment, and ensure the basic viability of the economic system (Culpepper & Reinke, 2014; Farnsworth, 2015). Interestingly, we can justify specific activities undertaken by governments during the crises by referring to particular market failures, without the general reference to macroeconomic stability (Piechucka et al., 2023; Stiglitz, 2021). For example, the bankruptcy of one firm amplifies the risk of subsequent company collapses—a classic example of negative externality. Likewise, state rescue packages can be understood as a response to the absence of an efficient risk market. It is not possible to buy insurance against the consequences of potential diseases such as the COVID-19 pandemic.

Importantly, all state interventions dubbed corporate welfare should be explainable using market failure theory because the existence of the market failure is a necessary condition for state economic intervention. However, not all state activities justified by some market imperfection satisfy the definition of corporate welfare. For example, by investing in infrastructure, the state responds to the market failure, providing society with a public good. Yet, because infrastructure investments are typically not selective, and are usually not aimed at satisfying the needs of businesses, the provision of public goods such as local roads or waterworks does not satisfy all conditions of the

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[8] Access online on 26 November 2025, at: https://www.forbes.com/sites/niallmccarthy/2021/05/06/which-companies-received-the-most-covid-19-vaccine-rd-funding-infographic/?sh=3acba8804333.

proposed definition of corporate welfare. Notably, the extensive definitions proposed in literature categorise investments in infrastructure as corporate welfare because they bring at least some marginal benefits for businesses (Farnsworth, 2013; O'Connor & Sweeney, 2016).

Additionally, fundamental tax regulations that are universally applicable by definition cannot be selective. Moreover, the primary goal of tax law is redistribution (changing the initial resource allocation from the point of view of welfare economics), not solving any particular market failure. For example, according to the proposed definition, reducing the general corporate income tax rate, which is uniformly applicable to all businesses within the state's jurisdiction, should not be deemed corporate welfare, since it does not provide any privilege to any selected group of recipients. However, various preferential tax provisions that directly affect the costs and profits of particular businesses constitute exemptions from the general tax regulations. Although some authors tend to exclude these selective tax-based measures from corporate welfare (e.g., McGee, 2003), treating selective tax provisions as state assistance aligns with the definition of corporate welfare proposed here, and with that previously applied by Schlomach et al. (2019) and Milke (2007). Notably, the concept of policy tax gap is instrumental in understanding the logic of tax-based corporate welfare. This gap is defined as the difference between the total amounts of tax theoretically collectible under general rules of tax law (i.e. without any exemptions and preferential treatment) and the total amount of tax theoretically collectible in the existing tax system. Since the policy tax gap measures an exceptional tax-based support granted to selected entities, it is a good approximation of tax-based corporate welfare. According to rough estimations, in the case of Poland, the policy tax gap in the corporate income tax reached the value of PLN 7.2 bn in 2018 (Sawulski et al., 2020).

Two other examples of interventions frequently misclassified as corporate welfare derive from the fact that the state can affect the market not only by exercising its public power, but also through ordinary economic activities. When the state exerts its unique role associated with the monopoly right to use coercion, we deal with the *imperium* role of the state. By contrast, when the state engages in market activities on competitive grounds as an economic agent, we deal with the *dominium* sphere of the state activity (Nykiel-Mateo, 2009). It has to be noted that corporate welfare belongs to the *imperium* sphere of the state's activities (e.g., when the state arbitrarily provides some exceptional tax provisions to selected entrepreneurs or decides to fund some grants from public resources collected thanks to its right to use coercion). Consequently, all instances when the state behaves as an ordinary market participant should not be considered corporate welfare. In particular, this concerns procurement processes and non-strategic ownership of enterprises. All market entities have to purchase some goods and services, and the state is no exception. Procurement processes serve the state and satisfy the state's needs in the first place. And while particular purchasing decisions are always beneficial for selected entrepreneurs, this is rather a byproduct of state activity than its primary goal. Moreover, precisely the same tool is available for all other market players, since their procurement decisions are also beneficial for selected providers of goods and services. De Rugy and DeHaven (2020) and Klebaner (2024) are also reluctant to treat procurement as a form of corporate welfare. Similarly, state ownership of companies is common all over the world, and this is an ordinary activity intended to bring profits into the state budget. Even if a particular state-owned enterprise benefits from a government capital injection, this tool is available to all other investors. Ultimately, it seems that other authors are also reluctant to treat state ownership as an example of corporate welfare (Bulfone et al., 2023).

In specific circumstances, it may be reasonably argued that infrastructure investments, taxation policy, procurement processes, and ownership engagement of the state do constitute corporate welfare. For example, the strategic state ownership of some assets can fulfil the corporate welfare definition formulated above. Moreover, state capital injections are sometimes used as a rescue mechanism (Farnsworth, 2013). In such cases, the state interventions usually aim to preserve macroeconomic stability, and are therefore grounded in market failure theory. In a similar vein, local content requirements can also constitute corporate welfare when applied exceptionally in some strategic procurements. When the state arbitrarily decides to prefer some selected providers of goods or services, it ceases to operate as a normal market player focused on profit maximisation, and instead can select the higher offer for the sake of the supply stability. In those examples, the market logic is superseded or supplemented by other concerns derived from market failure theory (e.g., the provision of public goods such as safety or stability of the financial system). This means that the state uses the *imperium* power to solve an important social challenge. Finally, the ambiguous nature of the taxation policy has been described above. A graph included in Appendix B outlines interdependencies between corporate welfare and other forms of market interventions that should not be classified as corporate welfare.

## 2.2. Malpractices and inefficiencies

Most corporate welfare interventions can be explained by the theory of market failure and should therefore not be automatically deemed undesirable. However, in some cases, intervention's side-effects and unintended costs may outweigh its benefits. These indirect consequences were noted by de Rugy and DeHaven (2020) in their study of non-budgetary costs of corporate welfare. Moreover, in extreme cases, business pressure may even induce corporate welfare without any clear justification in market failure theory. However, from the welfare economics perspective, state intervention should not occur when its total costs exceed expected gains, nor when market failure does not exist. Thus, excessive (pathological) forms of corporate welfare are unjustified on the basis of market failure theory. These principles apply to all state interventions, not only those related to corporate welfare (Stiglitz & Rosengard, 2015), and are widely acknowledged even by critics of corporate welfare (Bennett & DiLorenzo, 1982; Slivinski, 2007).

In summary, state intervention is desired and advantageous provided its aim is to address market failures and produces negligible side-effects. In practice, however, this is not always the case. Sometimes we converge towards a position de Rugy and DeHaven (2020) describe as 'the pathology of privilege'. In both cases, we have interventions fulfilling the definition of corporate welfare proposed above. The relationship between market failures, corporate welfare, and business pressure is presented in Figure 2.

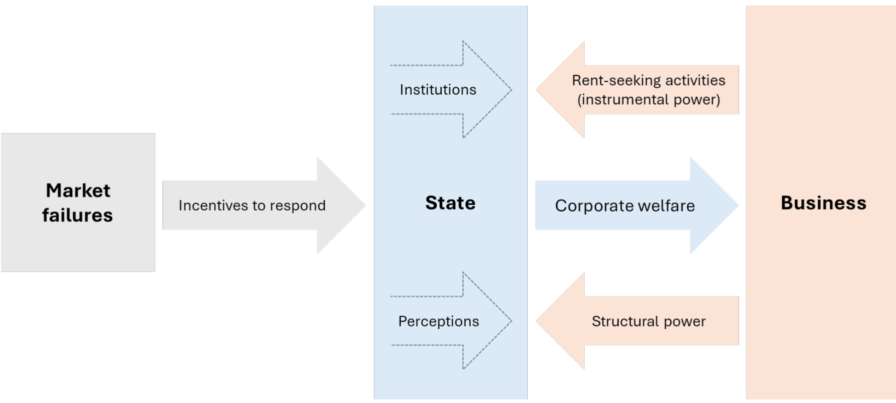


**Figure 2. The relationship between market failures, corporate welfare, and business power**

Source: own elaboration.

The path from advantageous corporate welfare to the pathology of the privilege, is always accompanied by rent-seeking. Since corporate welfare always offers an opportunity to redistribute resources, the rent-seeking naturally accompanies such interventions. Rent-seeking always appears when the potential gains from such activities exceed the costs borne by rent-seekers. Baumol (1990) and Sobel (2008) point out that whenever potential benefits from redistributive policies appear, entrepreneurs will estimate the resources and effort they should allocate to productive activities and how much to unproductive rent-seeking. The intensity and harmfulness of rent-seeking depend primarily on the state's capacity and quality of institutions, or what Baumol (1990) describes as 'rules of the game'. As Acemoglu and Robinson (2019) explain, when institutions are weak, we face the extractive and pathological state, and the word 'extractive' is chosen deliberately to underscore the reference to rent-seeking. Importantly, Acemoglu and Robinson (2019) argue that it is a matter not only of economic institutions, but also political institutions: both categories are entangled and relevant. Importantly, if the rent-seeking pressure exerted by entrepreneurs is sufficiently strong, it can distort the state's decision and lead to a pathological distribution of public resources, not solving any market failure.

Importantly, rent-seeking activities reflect the so-called instrumental power of business, defined as non-core activities that enable firms to attain political leverage (e.g., lobbying or campaign donations). Instrumental power is exercised deliberately and depends on the resources at the disposal of a particular entity. It is, however, not the only channel allowing corporations to affect political decisions. The ability to shape the general condition of the economy through individual decisions concerning the location of activity, investment, and employment is a source of specific structural power of business (Culpepper, 2015). The threat of disinvestment or capital flight indirectly affects decisions made by politicians, and can also determine corporate welfare, a point illustrated by Farnsworth (2012), Bürbaumer & Pinsard (2025), Culpepper & Reinke (2014), or Fairfield (2015). Crucially, as Fairfield (2015) emphasises, structural power does not require concentrated and intentional actions of the business; policymakers' perceptions of the credibility of the threat play a key role in transmitting the structural business power into political decisions.

Both the instrumental and structural power of business affect the decision-making process and can distort the reasonability of the state's intervention stemming from the market failures theory. An extractive state with weak institutions can be significantly affected by state failures, since it has limited access to information, limited capacity to foresee market responses, limited control over the bureaucracy, and high vulnerability to side-effects of the political processes (Stiglitz & Rosengard, 2015). Institutional failures inhibit the state's capacity to defend from rent-seeking pressure and make it particularly vulnerable to structural business power. As a result, distribution of public resources may be distorted or even unjustified. Ultimately, this institutional failure results in 'a pathology of privilege', distortion of incentives leading to the 'too big to fail' problem, ineffective 'picking winners' policies, or even corruption and cronyism.

## Conclusions

Despite corporate welfare's ubiquity, it remains insufficiently explored in the literature. The definition proposed in this article produces a corporate welfare concept that is narrow, objective, and tightly connected to its roots in the idea of the welfare state. The ability to precisely and correctly describe relevant concepts is essential for formulating any further hypotheses properly. For these reasons, this study potentially provides important value added to all studies on the changing role of the state or the efficiency of contemporary welfare states.

Clearly, the economic justifications for particular interventions cannot be determined *a priori*: assessment depends on the specific circumstances of the given action. In general, corporate welfare should not be assessed as adverse or pathological in advance. Taking into account the proposed definition, it seems that many manifestations of corporate welfare can be successfully explained and justified on the basis of market failure theory. However, the opposite also holds: not all state interventions coherent with market failure theory fulfil the premises of corporate welfare. For example, infrastructure investments or public procurement are typically not targeted at satisfying business needs, and cannot therefore be deemed corporate welfare. At the same time, the state does not operate in a vacuum; all policymaker decisions are exposed to the instrumental and structural power of business. This pressure may distort the logic of intervention and, in extreme cases, result in corporate welfare that is not justified by welfare economics.

There are many potential fields for follow-up studies. Firstly, exploring main strands of economic thought could illuminate the historical context of corporate welfare, examining whether the idea of corporate welfare is in fact much older than the term itself. Secondly, as mentioned in this article, corporate welfare overlaps to some extent with concepts such as industrial policy or developmental state. It might be valuable to put more effort into disentangling these relations and explaining how those terms are situated in relation to each other. Last but not least, research could scrutinise the importance of the European Union, European competition law, and European rules concerning state aid for the concept of corporate welfare.

# Appendix A. Selected definitions of corporate welfare

**Table A1. Selected definitions of corporate welfare**

| Source | Definition | Comments |
|---|---|---|
| Dawkins (2002) | Corporate welfare can be defined as any government subsidy to business, excepting socially directed partnership with nonprofit organizations, that provides unique benefits or advantages to specific companies or industries for activities they may generally be expected to perform for reason of profit. That includes provision of direct grants, research and other services, and subsidized loans and insurance (p. 272). | • Dawkins underscores the selectivity of corporate welfare measures ("all forms of corporate welfare are subsidies, but the reverse is not true").<br>• Dawkins accepts social goals fulfilled as side-effects of corporate welfare ("when defining corporate welfare I have not discounted the strategic uses of public policy by including programs with broadly accepted social objectives", p. 272).<br>• Corporate welfare is presented in a negative context. |
| Milke (2007) | A government subsidy to business occurs when a government transfers tax dollars to business for reasons other than for goods or services. In academic jargon, such a subsidy is often referred to as "targeting" because government support is "targeted" at a particular business or industry. In common parlance, business subsidies are known as "corporate welfare." These terms are largely interchangeable. Note that this definition of corporate welfare does not include tax reductions, deductions, credits, or exemptions for individual businesses or business as a sector (p. 6). | • Sensible approach to tax-based corporate welfare. As the author explained in footnote 1: "An exception to this is arguably where one business or sector is given preferential treatment on its own tax burden vis-a-vis other businesses who must pay regular rates." (p. 6)<br>• Corporate welfare is presented in a negative context. |
| Slivinski (2007) | For the purposes of this study, "corporate welfare" is defined as any federal spending program that provides payments or unique benefits and advantages to specific companies or industries (p. 2). | • The author underscores the selectivity and does not exclude tax-based measures from the definition.<br>• Corporate welfare is presented in a negative context. |
| Farnsworth (2013) | The term corporate welfare is defined here as the various benefits and services that directly, or indirectly, meet the needs of businesses (p. 5). | • The definition is formulated in a direct reference to the classical concept of social welfare.<br>• It is neutral, free of any value judgments.<br>• Extremely broad. |

| Source | Definition | Comments |
|---|---|---|
| Schlomach et al. (2019) | Corporate welfare is any financial benefit purposely granted by government to a specific business or class of businesses and that is not generally available to all businesses and taxpayers. Corporate welfare either lowers the costs of doing business or increases revenue for a business without its customers providing the revenue, relative to other similarly situated businesses, broadly speaking (p. 3). | • The authors underscore the selectivity and do not exclude tax-based measures from the definition.<br>• The authors implicitly introduce an additional condition of inefficiency to identify a given intervention as corporate welfare. They explain that „some tax provisions, though often viewed as corporate welfare, are often consistent with economically efficient tax policy and should not be viewed as welfare" (p. 9). |
| Bulfone et al. (2023) | We argue that there is a fundamental political economy reason to adopt a more restrictive definition, premised upon the existence (or not) of conditionality – that is to say, whether or not states demand that firms behave in a certain manner in order to qualify for resource transfers. When they do, we contend that this should not be considered an instance of corporate welfare, given that states are able to impose their own logic of action in promoting economic growth (p. 256). | • Pejorative. The authors clearly distinguish unconditional corporate welfare from conditional interventions and assess the former negatively.<br>• Narrow („Toward a restrictive definition of corporate welfare"). |
| Klebaner (2024) | Corporate welfare system definition can encompass any transfer of public funds or power to corporations (p. 4). | • The author does not exclude tax-based measures from the definition.<br>• Extremely broad.<br>• Corporate welfare is presented in a negative context. |

Source: own elaboration.

# Appendix B. Corporate welfare in the context of justified and unjustified state interventions

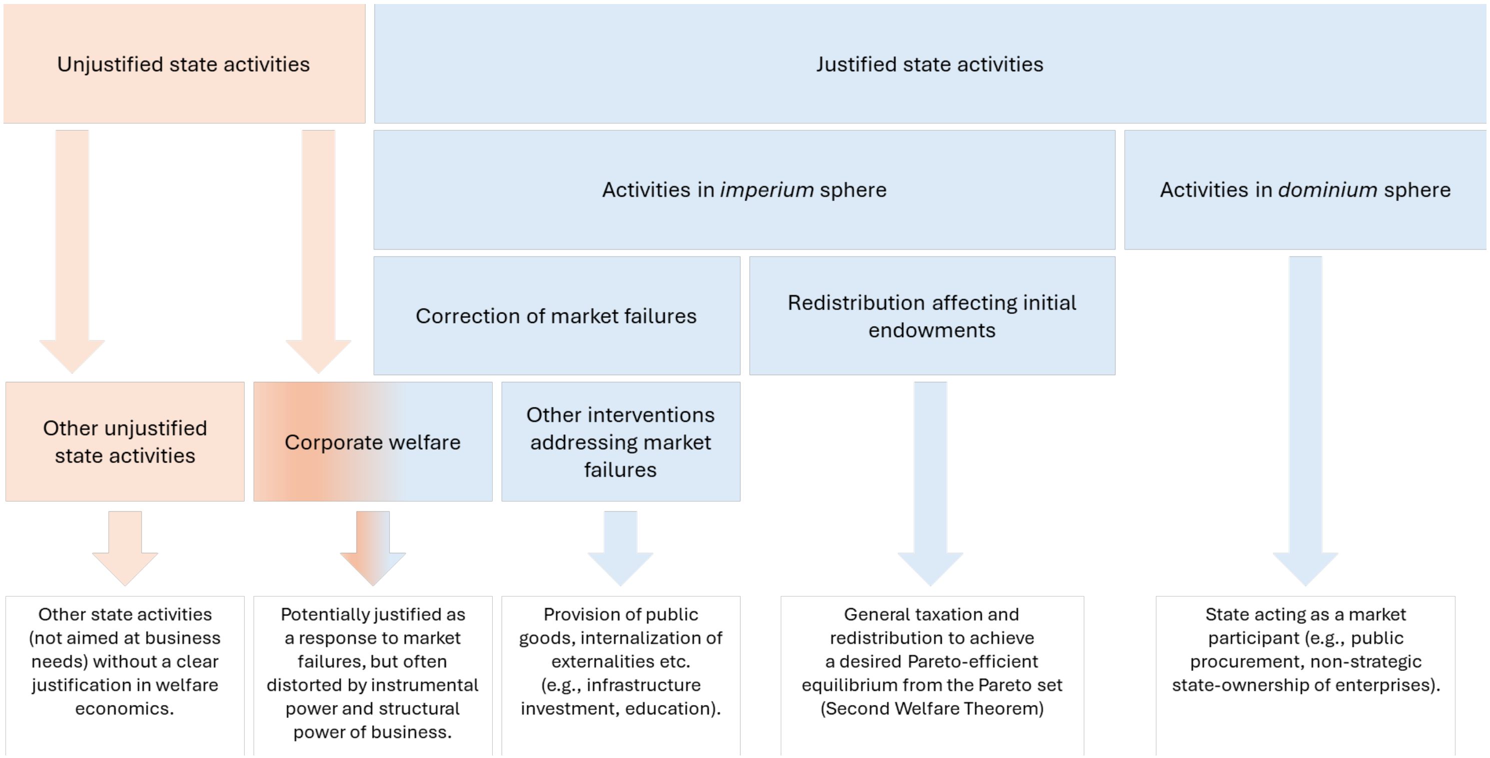


**Figure B1. Simplified classification framework of state interventions**

Source: own elaboration.

# Appendix C. Selected aspects of the corporate welfare concept in practice

Appendix C includes two case studies intended to highlight some aspects of corporate welfare raised in previous parts and portray their practical dimension. The story of Solyndra exemplifies controversial features of the government support provided to entrepreneurs, whereas de minimis guarantees represent an unequivocal success. Moreover, the case of Solyndra offers more in-depth insight into the nature of the inefficiencies of corporate welfare described above. De minimis guarantees, in turn, allow discerning differences between corporate welfare and the well-known concept of state aid. Both examples are coherent with the definition of corporate welfare proposed above and both can be justified by market failures.

## Controversial bankruptcy of Solyndra

The famous case of the support provided to Solyndra is a very instructive example of corporate welfare activity. Although the support scheme applied in this case was rather straightforward, the reasonability of the intervention is assessed extremely disparately, and it makes this example interesting. Solyndra was a solar cell company founded in 2005 and quickly hailed as the American symbol of progress. Based on the American Reinvestment and Recovery Act, Solyndra received in 2010 enormous support from Obama's administration. The goal of public funding was to facilitate the development of green technologies. Support took the form of an expanded loan guarantee program and reached a value of USD 535m (Rodrik, 2014). Since this intervention was exclusive and aimed at the reduction of market-based risk stemming from the innovativeness of the technology, it can be treated as an example of corporate welfare.

Unfortunately, Solyndra went bankrupt in 2011. Naturally, this event raised many questions concerning the reasonability of the government's support and the plausibility of 'picking winners' policies. For many, it was a perfect example of the inefficiency and wastefulness of corporate welfare. Moreover, there are reasons to believe that the decision to confer support to Solyndra was forced by intensive lobbying and backed by strictly political arguments (DeHaven, 2012), which illustrates the tension between rent-seeking and the quality of institutions.

However, Rodrik (2014) is much more reluctant to assess this example as an apparent failure of corporate welfare. He points out that the reasons for Solyndra's collapse should not be boiled down to the incompetence of the administration. When Solyndra was founded, silicon was perceived to be the most efficient semiconductor, and consequently, it was a very popular solution used in the industry. However, the price of silicon was growing rapidly and was expected to grow further. Therefore, Solyndra decided to base its technology on copper indium gallium diselenide used as a semiconductor. Unexpectedly, the silicon market dramatically changed in 2008—the prices declined due to new capacities coming from China. It became much more difficult for Solyndra to compete with technologies based on silicon. Obviously, the American Department of Energy should be aware of all these circumstances and should base its decision on a comprehensive assessment of all economic conditions accompanying intervention (insufficient information is one of the so-called state failures). Despite that, Rodrik does not conclude that the support conferred to Solyndra was a clear-cut mistake. He argues that the correct measure of success should be based on the efficiency of the entire portfolio of projects, not on the story of an individual entrepreneur. Moreover, as was already mentioned, since we consider initiatives with clear positive externalities for society (spillover of technology and environmental benefits), the overall performance of the portfolio should not be evaluated solely in the financial dimension.

As explained by Mazzucato (2013), the case of Solyndra and the reasons for its bankruptcy may be even more complicated. Mazzucato explores the thread of the competition between Solyndra and Chinese solar producers, pointing out that the capabilities of Chinese entrepreneurs were reinforced by public support provided by the China Development Bank. It might mean that something that is interpreted as a 'failure' of the American corporate welfare initiative was fuelled by successful corporate welfare actions undertaken by Chinese authorities. Moreover, Mazzucato claims that the failure of the American solar producer was, to a great extent, a consequence of the impatience of venture investors, who withdrew their funds too hastily, making it virtually impossible for Solyndra to exploit expected economies of scale and successfully compete on the market.

At least two lessons important for the understanding of corporate welfare stem from the story of Solyndra. Firstly, it is not sound to base the assessment of corporate welfare programs on individual cases. Any plausible evaluation should be sufficiently comprehensive and cover a significant time period. Note that evaluations of traditional social welfare programs are also not based on individual cases of support provided to individual citizens. Secondly, the efficiency of corporate welfare policies partially depends on countermeasures applied by other governments. Globalization inevitably leads to competition between states, also on the grounds of corporate welfare – this process is discerned and described in literature (Evenett et al., 2024; Farnsworth, 2013; Piechucka et al., 2023). Again, similar, but not so fierce, competition can be observed in the field of social welfare.

## De minimis guarantees as a remedy for financing-gap

De minimis guarantees are provided by the Polish development bank BGK for small and medium enterprises on the grounds of the general legal provisions[9] and an agreement between BGK and the Polish ministry responsible for financial matters. The main goal of de minimis guarantees is to facilitate access to capital for entities that tackle the so-called financing gap. Interestingly, according to the analysis conducted by the Polish development bank, at the end of the second quarter of 2024, almost 20% of active loans provided to Polish small and medium enterprises were secured with de minimis guarantees. Simultaneously, results of the evaluation of the de minimis program reveal that 35% of enterprises that benefited from the guarantees would not get financing without support from the Polish development bank (Walewski et al., 2024).

It should be explained that de minimis aid is understood as sufficiently negligible to be irrelevant to the trade between member states of the European Union[10]. It means that it cannot be perceived as the state aid defined in Article 107 of the Treaty on the Functioning of the European Union. Obviously, guarantees provided by BGK are not the only form of de minimis support available for Polish entrepreneurs. However, according to the Polish Office of Competition and Consumer Protection, they are one of the most popular. As presented in Figure C1, the overall value of de minimis support provided to Polish entrepreneurs in 2023 exceeded EUR 2275m. It was 0.30% of GDP and, at the same time, 16.5% of the total value of state aid conferred by Polish authorities (also beyond the de minimis limits). De minimis guarantees provided by BGK constituted 26.8% of the de minimis support overall value[11] (UOKiK, 2024).

Since de minimis guarantees are publicly funded, available only for a selected group of entities that meet some particular conditions, and they clearly decrease the cost of acquiring capital, which is beneficial for entrepreneurs, they satisfy the definition of corporate welfare proposed above. Actually, de minimis guarantees constitute an interesting case of corporate welfare for two reasons. Firstly, as it was mentioned, due to the fact that guarantees are pro-

[9] These issues are regulated by the Act of 8th May 1997 on securities and guarantees granted by the State Treasury and by certain legal persons.

[10] De minimis aid is precisely defined in the Commission Regulation (EU) No 1407/2013 of 18th December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid.

[11] It should be noted that the value of the de minimis aid provided via guarantees is not equal to the face value of de minimis guarantees. In order to find the value of the de minimis aid conferred via de minimis guarantees, the total value of de minimis guarantees has to be recalculated to the so-called gross subsidy equivalent. Such recalculations are necessary because of the differentiated nature of instruments applied as the de minimis aid.

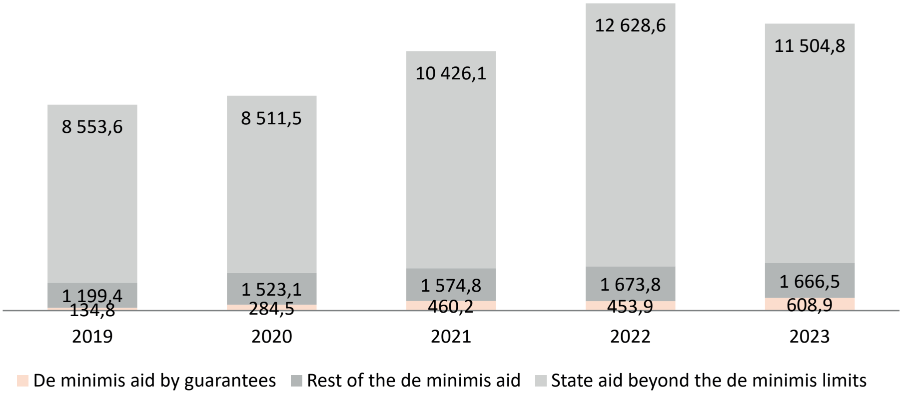


**Figure C1. De minimis aid via guarantees, total de minimis aid, and total state aid in Poland (m EUR)**

Source: (UOKiK, 2024).

vided as de minimis support, they are not encompassed by the legal definition of state aid. In this sense, de minimis guarantees allow us to notice the main difference between the concepts of corporate welfare and state aid. Secondly, the support provided by the Polish government to entrepreneurs via de minimis guarantees is an example of the measures executed indirectly, with the engagement of the external entity that acts as a middleman. Obviously, the Polish development bank is a state-owned enterprise with special status defined by the law. However, formally, it is not a part of the Polish government. Although the Polish development bank is responsible for managing, executing, and evaluating the program, distributed resources are public, and the state is the ultimate guarantor of the provided guarantees.

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