

Department of Cronyism

Veronique de Rugy

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What's the point of the Department of Commerce? If not for the Census and the Patent Office, the department would function as little more than a one-stop shop for special interests. Don't believe me? Look at its record.

In Fiscal Year 2013, the Department of Commerce spent about \$10 billion and employed 42,829 bureaucrats. A breakdown of the budget by function shows that some 30 percent goes to paying salaries, while 40 percent subsidizes private businesses and local development projects.

Commerce is best thought of as a clearinghouse for an assortment of business subsidies and economic data collection programs. Former Commerce Secretary Robert Mosbacher is unusually candid about the purpose of his old department. In a 1995 *Washington Times* article titled "Trade Will Go On, Even without Commerce," the onetime administrator called the agency "nothing more than a hall closet where you throw in everything that you don't know what to do with."

The man has a point. Created in the early 20th century, Commerce's largest initial activity was managing the nation's lighthouses. Out of its humble original mandates grew a massive hodgepodge that includes the National Weather Service, the National Marine Fisheries Service, the Bureau of Economic Analysis, the Minority Business Development Agency, the International Trade Administration, the Office of Travel and Tourism Industries, the Manufacturing Extension Partnership, and the Economic Development Administration (EDA).

Elsewhere in this issue, Sonny Bunch discusses the way this sprawling department grew and makes the case for killing it off. (See "Stifling Commerce.") The U.S. has enough debt problems without funding Commerce-style corporate welfare. American businesses managed to prosper and grow long before the department was created. In fact, Commerce's cronyist subsidies are a net drag on the economy because they undermine competition and drain productive resources.

Consider the EDA. Created in 1961 as the Area Redevelopment Administration, this program opened the gates of federal intervention into local affairs. Using the misguided justification that public money was needed to revitalize broken communities, EDA programs rapidly expanded to include more areas and looser eligibility standards. By 2013, the EDA was spending roughly \$260 million annually on grants and loans to state and local governments, nonprofit groups, and businesses in "economically distressed regions." Somehow, well-connected corporations and interest groups keep falling into "economic distress."

EDA spending is now driven by politics and privilege rather than merits or need. Not coincidentally, the agency is also legendary for fraud and waste. One memorable EDA boondoggle in the late 1970s gave the town of Bedford, Indiana, some \$200,000 to build a 95-foot-tall limestone replica of the Egyptian pyramid of Cheops and a 650-foot-long version of the Great Wall of China. Fortunately, the gaudy Limestone Tourist Park was never completed.

Why does spending on silly programs like Indiana's limestone pyramids persist? Public choice economics can bring us the answer. The benefits of Commerce grants and subsidies are concentrated on a few politicians fiercely committed to defending their pet programs, while costs are spread across millions of clueless taxpayers.

Republicans and Democrats are happy to stick up for little-known carrots like these that they can use as leverage for other legislative priorities. They defend Commerce programs on the grounds that they create jobs and help grow the economy. A 2006 report from the EDA claimed that each dollar it spent triggered a miraculous \$31 in private investment. With that astronomical multiplier effect, one wonders why *all* federal money isn't invested in EDA grants.

The answer, of course, is that this is fantasy, not math. As Tad DeHaven of the Cato Institute documented in a 2009 report, these claims have been thoroughly debunked multiple times over the years. "A 1980 academic study of the EDA, which was funded by the EDA itself, found no sustained benefit of EDA programs to assisted communities," DeHaven noted. "In 1986, an EDA technical assistance program claimed it had created 5,834 jobs, but the Department of Commerce inspector general concluded that the program had created only 83 jobs."

Numerous Government Accountability Office (GAO) reports have found EDA job creation claims to be meritless, or at best inconclusive. The prize for EDA ineffectiveness goes to the grants made to Native American tribes for "enterprise projects." A 2004 GAO review of these enterprise projects found that 77 percent were losing money. Most created 10 or fewer jobs and attracted no private-sector investment.

Adding insult to injury, many Commerce programs are duplicates of programs in other agencies. For instance, the GAO found 86 federal programs spread across 10 federal agencies and commissions that provide the same sort of economic development funding that the EDA does.

In recent years, both Democrats and Republicans have offered suggestions to address the problem. In January 2012, President Obama proposed folding the Small Business Administration and five other trade and business agencies into a single agency that would replace the Commerce Department. Similarly, in December 2013 Sens. Richard Burr (R-N.C.), Daniel Coats (R-Ind.), and James Inhofe (R-Okla.) introduced a bill to consolidate the Department of Labor, the Department of Commerce, and the Small Business Administration into a new agency called the Department of Commerce and the Workforce.

Unfortunately, the EDA and the other useless programs in the department are about as resilient as a cockroach and more disgusting. In his 1986 book *The Triumph of Politics*, David Stockman, former director of the Office of Management and Budget, describes the ordeal he faced in trying to terminate the EDA. Another Republican-led effort to dismantle the EDA launched and crashed

in the 1990s. It is unbelievably hard to eliminate a government favor-dispensing machine once it has been created.

Whatever the intentions behind the Department of Commerce and its disparate programs, the results are unimpressive at best and wasteful at worst. Worse still are the systematic distortions they introduce into the market. Commerce grants and subsidies are nothing more than privileges bestowed to well-connected special interests. In this age of trillion-dollar deficits and public revulsion at crony capitalism, there has never been a better time to shut down the department. And if we have to destroy it piece by piece, the Economic Development Administration is a good place to start.