



The federal Department of More Spending and Higher Local Taxes

David Bier, OpEd Contributor - September 26, 2012

"We believe in the free enterprise system," President Obama said at a recent campaign stop. "But we also believe we've got obligations to one another."

The president is right -- except that the most pressing obligation we have to one another is to fix our national debt problem.

As America's obligations soar past \$16 trillion, the government continues to spend without regard for the future. Most Americans are frustrated by this lack of restraint. So why haven't we been able to come together to address the problem?

Perhaps we're doomed by "the tragedy of the commons." The phrase refers to a situation where shared or "common" resources like fisheries are depleted because each fisherman knows that if he does not take what he can now, another fisherman will later. Common resources are unsustainable because no one has any incentive to conserve for the future.

What applies to fisheries applies also to public spending. Subsidies for favored industries or areas multiply and expand because, as with the fishermen, representatives know that if they don't grab their piece of the political spoils, someone else will. In a commons, Congress spends not like drunken sailors, but like rational fishermen seeking immediate gain.

The Commerce Department's Economic Development Administration, or EDA, provides a perfect illustration. Created in the 1960s, the EDA was billed as an agency for local "distressed communities." But by the 1980s, the EDA had expanded to cover more than 80 percent of the nation. By 1995, with basically all limits gone, former EDA director Orson Swindle called the agency simply "a congressional cookie jar."

This "tragedy of the welfare state," as the Cato Institute's Tom Palmer puts it, is simply legal plunder to the benefit of the politically connected. Last year, for example, the agency granted \$2 million to Visalia, Calif., to attract new businesses to the city. Within months, major medical supplies manufacturer VWR

International agreed to open a 500,000-square-foot distribution warehouse in Visalia. That's great, except that in order to take advantage of the subsidy, VWR simply closed another warehouse in Brisbane, Calif. Desperate to prevent the plunder of its city, Brisbane immediately proposed subsidies of its own.

In this case, as in many others, the EDA's subsidies helped create a "race to the bottom" between jurisdictions. It gave them incentives to raise taxes for corporate subsidies just to compete with subsidies from other cities. In order to claim to have "created" (rather than "consumed") huge amounts of private and public-sector investment in their projects, the EDA will often require localities to raise 50 percent of the cost of the project. With the EDA's carrot dangling, local governments often raise taxes to qualify.

Cedar Rapids, Iowa, for instance, raised taxes to pay for its EDA-funded convention center project, even though the voters had voted against the tax when it was placed on the ballot. The Cedar Rapids project manager admits that "it will lose money. We know that. The city knows that." The EDA's grant came despite a city projection of \$1.3 million-per-year losses in the future. Pueblo, Colo., was even granted the EDA's Economic Adjustment Strategies award for raising \$88 million to meet an EDA matching grant.

Over its history, the EDA has funded wine tasting rooms, replica pyramids and football stadiums -- just last week, it gave \$1 million to Keshet Dance Company. In his campaign speech, President Obama said, "We also believe this country only works when we're thinking about future generations, not just this one." Yet if he really cared about future generations, he would stop dumping endless debt on them and start finding real ways to create economic growth.

David Bier is a policy analyst at the Competitive Enterprise Institute and author of the study "The Case for Abolishing the Economic Development Administration."