

Federal, Indiana governments dole out corporate welfare together

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The Indianapolis Star's investigation of a contractor hired by the Indiana Economic Development Corporation to select companies to receive taxpayer handouts is further evidence that a separation of commercial interests and state is needed. For that to happen, however, the states will need to separate themselves from the federal money that perpetuates "crony capitalism."

The unfolding story of Elevate Ventures appears to be a prime example. Founded in late 2010 by Howard Bates, "a well-connected businessman and Republican campaign donor," Elevate was soon awarded a \$1.5 million per year contract by Republican Gov. Mitch Daniels' administration to decide what businesses would receive taxpayer subsidies. According to The Star, Elevate proceeded to give almost \$500,000 to a company run by Bates and another \$300,000 to a company run by Bates' son.

The money, however, came from the federal government; specifically, a \$1.5 billion federal business subsidy program created by the Small Business Jobs Act of 2010. Essentially another attempt to stimulate the economy, the legislation was created and passed by a Democratic Congress and signed into law by a Democratic president.

At first blush, it would seem ironic that partisan Democratic legislation at the federal level would lead to partisan Republican uses at the state level. There is no irony, however, as this sort of arrangement is standard fare. For all of the partisan bluster one reads or hears in the media, the truth is that politicians in both parties – and both levels of government – are partners in the corporate welfare racket.

Remember Solyndra? Republicans held up the now-defunct solar energy company as the prime example of the failure of crony capitalism under the Obama administration's stimulus efforts. But while they were making political hay out of Solyndra, many congressional Republicans were busy petitioning the federal Department of Energy behind the scene to deliver similar subsidies to companies back in their districts.

One of those members of Congress was the current governor of Indiana, Mike Pence. Indeed, then-Rep. Pence – a vocal critic of the Obama administration's economic policies – was one of four Indiana Republican signatories to a letter asking the Energy Department to subsidize a manufacturing facility in Tipton for a company called Abound Solar. The company was awarded a \$400 million federal loan guarantee, but ended up filing for bankruptcy a year after Solyndra went bust.

Federal politicians weren't the only the ones salivating over an opportunity to take credit for the jobs Abound was supposed to create. On July 3, 2010, the IEDC issued a press release celebrating Abound's decision to build the Tipton plant and noted that the state offered the company "up to \$11.85 million in performance-based tax credits and \$250,000 in training grants." "What a great way to celebrate Independence Day," said then-Gov. Mitch Daniels. The celebration was short-lived.

The Star's recent expose on the Carbon Motors debacle is another example of the problem with state officials looking to hitch a ride on the federal gravy train. To great fanfare, the Daniels administration threw millions of dollars at the company and its dubious plan to manufacture high-tech police cars in Connersville. However, perhaps chastened following Solyndra and other subsidized failures, the Department of Energy eventually decided against guaranteeing a \$310 million loan to Carbon. The company soon went under and a bitter Daniels blamed the federal government, but thus can be the price for relying on handouts from Uncle Sam.

Politicians do not possess special knowledge that enables them to allocate capital more efficiently than markets. They are no more clairvoyant about market trends and scientific breakthroughs than anyone else. Thus, when the government starts choosing industries and technologies to subsidize, it often makes bad decisions at taxpayer expense. Businesses and venture capital firms make many mistakes as well, but their losses are private and not foisted involuntarily on taxpayers. And even where politicians can point to "successes," it's critical to remember that when politicians favor one company, they do so at the expense of other taxpaying businesses and individuals.