



Obama's cronyism on display in the State of the Union

By Veronique de Rugy | JANUARY 30, 2014 AT 3:44 PM

President Obama's State of the Union address was not particularly creative — nor was it surprising; it included a long wish list of spending items for special interests.

Take, for instance, the president's call for more spending to help launch six new hubs for high-tech manufacturing that would help “beat other countries in the race for the next wave of high-tech manufacturing jobs.” Two such hubs exist “in Raleigh, N.C., and Youngstown, Ohio, where we've connected businesses to research universities that can help America lead the world in advanced technologies.”

This might sound like a wonderful opportunity to create jobs in the manufacturing sector. But the decline of U.S. manufacturing is a myth, and there's no reason -- other than catering to special interests -- to throw public money at this nonexistent problem.

Second, even if the manufacturing sector was struggling, the government has a weak record when it comes to generating innovation through the money it gives to private companies. American Enterprise Institute's Jim Pethokoukis points to an interview of economist Enrico Moretti explaining, “If you look at the history of America's great innovation hubs, they haven't found one that was directly, explicitly engineered by an explicit policy on the part of the government. It's really hard. This is not how innovation hubs and clusters get developed. They often get developed because of idiosyncratic factors, like a local firm succeeds and it starts attracting more firms like that. And this creates a cluster that then becomes stronger and stronger, and that feeds on itself.”

Obama also called upon Congress to direct more spending to research the president believes will help spur innovation. Research is great and so is innovation. But as Neal McCluskey at Cato Institute noted in a video response to the SOTU speech, when the government funds research, we tend to get bigger salaries for the researchers favored by the government, not better research. Besides, if the president wants to unleash growth, he should reform the punishing corporate income tax system by lowering the tax rate and switching to a territorial system.

The green energy industry, one of the president's favorites, also got a shout-out Tuesday night. The president said, “Every four minutes another American home or business goes solar, every panel pounded into place by a worker whose job can't be outsourced. Let's continue that progress

with a smarter tax policy that stops giving \$4 billion a year to fossil fuel industries that don't need it so we can invest more in fuels of the future that do.”

To be sure, giving tax breaks to fossil fuel industries is one of the many forms cronyism takes, but so is implementing green energy loans -- mostly through the 1705 loan guarantee programs -- and cash transfers from Treasury for the politically connected beneficiaries of these loans. When you add the generous federal tax credit available to rich people who buy expensive green energy cars like the Tesla, you can see that this administration doesn't mind corporate welfare.

Farmers, who are about to score massive subsidies in the new farm bill, also got a mention, while small businesses were promised their share of government favoritism in the form of more Small Business Administration loans and export support. And as the *Washington Examiner* rightly notes, the Wall Street lobby got its share of action in the form of “a new middle-class/working-class savings plan he calls the ‘ MyRA.’” The president may not have intended it, but if successful, this government policy could “pour tens of thousands into a retirement account propped up by government debt,” to the great benefit of the financial industry.

But, as Lachlan Markay noted over at the Free Beacon, SOTU cronyism was on display when Obama praised Costco for its support of an increase in the minimum wage and then visited the superstore the next day. Costco's founder and former chief executive Jim Sinegal, Markay explains, “has raised millions for the president and hosted him for fundraisers at his palatial Seattle home.”

The president's failure to disclose the political and financial connections when praising Costco in a very public forum is troubling and should, at the very least, raise eyebrows. When private companies donate large amount of money to politicians, the access they get is often at the expense of their competitors and sometimes taxpayers.