Orlando Sentinel

Giving Fla. firms 1st dibs on bids stifles competition, quality

By Daniel Ikenson | Guest columnist
September 20, 2012

Nobody spends a dollar more carefully than the person who earned it. Contrast that to the notoriously irresponsible fiscal habits of governments, which function by spending other people's money. Which raises the question: Is it wise to mandate government financial imprudence by statute?

That is exactly what the state of Florida has done. As of July 1, Tallahassee is required to grant preferences to in-state companies when considering bids to procure commodities and finished goods. Some recommend extending these preferences to the procurement of services, as well. While directives like these may be well-intentioned, they are also perilously shortsighted.

A sort of tribal instinct to insulate "our" markets, protect "our" businesses, and prevent "our" resources from leaking into other jurisdictions may be understandable — particularly in tough economic times.

But when we artificially reduce the size of markets by law or regulation or some arbitrary boundary, we reduce the scope for specialization, competition and economies of scale, which are the ingredients of value and wealth creation, economic growth and increased living standards.

Only a rudimentary understanding of supply and demand is needed to see that limiting competition for state procurement only ensures that Floridians will get a smaller bang for their tax bucks. If there are fewer eligible bidders, projects will cost more, take longer to complete, and suffer from lower quality. Mandatory in-state preferences will drive up the costs of all of Florida's procurement, reducing the state's capacity to meet its obligations without raising current tax rates or issuing more debt.

Residents may see some Florida companies winning contracts from the state, hiring workers, and generating local economic activity. And that may compel them to hail the in-state preference program a success. But what will be less visible — but every bit as real — are the contracts denied numerous other companies because the state's resources have been stretched and depleted to satisfy the in-state preference rules.

Some companies may thrive, but the real value of Florida's state budget — the products and services it can afford — will decline.

As individuals spending their own money, most Floridians seek to maximize value. That often means shopping for groceries at a national supermarket chain instead of the local bodega, or patronizing The Home Depot instead of the hardware store on Main Street, or visiting the Hair Cuttery instead of some chic salon in a fancy shopping center.

Shouldn't Floridians expect the state to spend their tax dollars with a similar eye toward value? If not, would they also acquiesce to a law requiring they purchase only products and services from Florida?

The new in-state procurement preferences favor the interests of Floridians as producers and service providers over their interests as consumer and taxpayers. That sort of intervention is unfair to nonproducers and opens the door wider to political favoritism and crony capitalism.

Beyond the moral case against in-state preferences is the well-established fact that widening the circle of people with whom we transact — including across state borders — brings lower prices, greater variety and better quality, and it allows consumers and businesses to reap the benefits of innovation, specialization, and economies of scale that larger markets afford.

Florida is not the first state to tilt its procurement process in favor of local companies. It is merely the latest to succumb to this populist economic mirage.