

## Department of Cronyism

May 11, 2014

Seldom does a week go by that we do not get a press release the Governor McCrory will be visiting some business to announce another Department of Commerce grant. Beaufort County was similarly afflicted with this disease until the resident Snakeoil Salesman (Tommy Thompson) was shamed into resigning. Just last week one of the EDC poster boys for cronyism, Flanders Filters cut jobs. It was so bad Flanders refused to make a public comment. Almost all of the Brilliant Job Creations schemes funded by Beaufort County taxpayers have failed to live up to the hype put out to get them the welfare grants.

Government does few things well. One of the things it does most poorly is "pick winners" in the business world. One reason they are such a miserable failure is that they use bogus data. "Jobs" is the mantra. They almost always overstate the number of jobs that are actually created by these special interest corporate welfare payoffs. As often as not these grants are nothing more than money laundering by politicians. The politicians wrangle the grants and claim they are creating jobs. The crony capitalists then donate a legal kickback to the politicians in the form of campaign contributions. Soon the company either fails, or the jobs never materialize. But the politicians have been re-elected and the scam begins anew.

A recent article in Reason.com abundantly illustrates the fallacy of this crony capitalism. The report:

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."