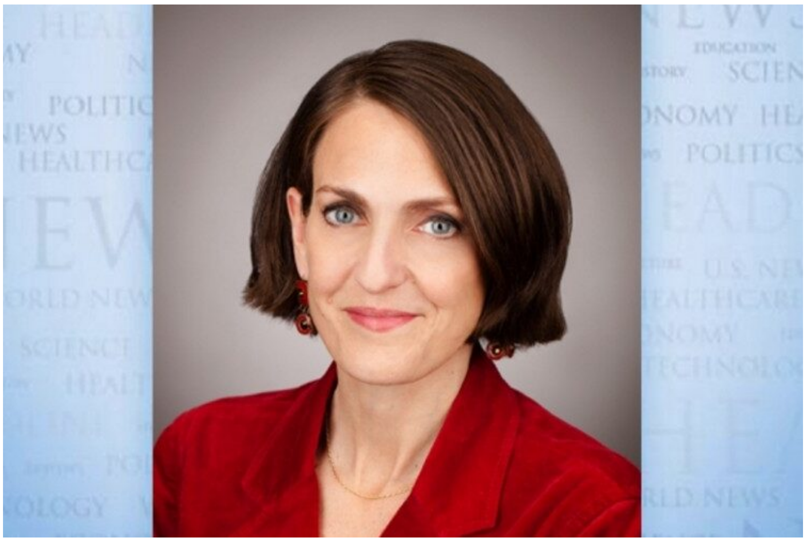
Cronyism's Critics Continue to Miss the Point


Veronique de Rugy

How to best ensure substantial long-run economic growth should be a question on everyone's mind. Its benefits can't be overstated, and it's undeniable that the lack of growth is a root contributor to many seemingly disconnected economic and social problems. That's the central theme of a recent podcast discussion between The New York Times' Ezra Klein and George Mason University economist Tyler Cowen.

They both expressed support for reforms to make government less bureaucratic and more agile. For example, Cowen cited the Food and Drug Administration's recent failure to approve COVID-19 treatments quickly enough, while also getting in the way of COVID-19 tests' development and distribution. In an ideal world, Cowen's sensible observation should lead to serious reform of the FDA along with other alphabet agencies that fail the American people through slow and counterproductive processes. During ordinary times these bureaucratic problems loom large enough; during a pandemic they're devastating.

My issue, however, is with Klein's suggestion that changing the status quo requires conservatives and libertarians to stop denouncing Uncle Sam for big fiascoes like Solyndra, the solar company that infamously went under shortly after receiving a $538 million loan guarantee from a green-energy program under the Obama administration. Denouncing such waste, Klein insists, only serves to embarrass the government for its failures, thus prompting it to be more cautious. As such, Klein would like "to somehow quiet these players looking to point out every failure."

That's wrong. Klein misunderstands why I and other free-market proponents fight against private companies receiving government-granted privileges — which is called "cronyism." It's not the wasteful spending that I mostly focus on; it's the unfairness.

Before I explain, I want to state for the record that it's not the role of government to prop up private companies, even green ones. Nor is it the case that the FDA screws up because conservatives and libertarians don't miss a chance to criticize government failures. Bad government, political incentives and repeated lack of accountability are all alone to blame for this mess. Besides, if pointing out that the government fails and wastes taxpayers' money were such a powerful way to embarrass government into exercising undue caution, we wouldn't continue to see this administration double down on interventions where others have failed before.

Now, consider the Department of Energy's Section 1705 green energy loan program, which gave us failures like Solyndra, Abound Solar and others. The program started under former President George W. Bush but hit its stride during Obama's presidency. It was allegedly designed to incentivize banks to lend to riskier green companies that wouldn't get access to capital otherwise, bolstering innovation in the process and boosting growth.

While it did lend to risky Solyndra, a vast majority of the loans primarily went to large, well-financed and established companies that already produce green energy. Take NRG Energy Inc., for instance, one of the program's biggest recipients. As its then-chief executive, David W. Crane, explained to The New York Times after securing $5.2 billion in federal loan guarantees, plus hundreds of millions in other subsidies for four large solar projects, "I have never seen anything that I have had to do in my 20 years in the power industry that involved less risk than these projects," and "It is just filling the desert with panels."

That story repeats itself throughout the program. Contrary to the program's goal, the 1705 loans didn't incentivize new market entrants. They instead subsidized big and powerful market incumbents. Under these conditions, it's not surprising that on paper and to untrained eyes the overall program seemed to be fairly low-risk, even successful, and led observers like Klein to dismiss Solyndra's failure as a cost worth paying for an otherwise good program.

That's the wrong conclusion, of course, if one understands how incredibly unfair such handouts are. They give an artificial competitive edge to big companies that have no problems accessing capital, and this comes at the expense of smaller and truly innovative competitors, of consumers and ultimately of the integrity of our markets and political system. Adding insult to injury, the companies' executives are often well-connected with politicians or with White House officials — as were Solyndra executives. This recipe is hardly one that produces innovation and growth.

The incentives within government decision-making processes are such that this same pattern exists in most programs where government extends handouts to private businesses, which explains why I oppose all subsidies and loan guarantee programs. It's a barrier to the growth that Cowen and Klein want to boost, and it's profoundly unfair.

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