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Stifling Innovation with Subsidies

Posted by [Tad DeHaven](#)

A couple of weeks ago I [wrote about a story in *Wired*](#) regarding the Department of Energy's Advanced Technology Vehicles Manufacturing Loan Program. The gist was that government subsidies to particular manufacturers are putting non-recipients at a competitive disadvantage in obtaining private capital. The author, a former Tesla Motors official, noted that "this massive government intervention in private capital markets may have the unintended consequence of stifling innovation by reducing the flow of private capital into ventures that are not anointed by the DOE."

An article in yesterday's *Wall Street Journal* [builds on this theme](#) by detailing the political shenanigans surrounding the DOE's awarding of a loan to Finnish high-end automaker, Fisker Automotive:

When tiny Fisker Automotive Inc. hit a financing glitch last year, threatening its plan to build a fancy gasoline-electric hybrid car in Finland, it turned to the U.S. Department of Energy... Within months, Vice President Joe Biden, the former senator from Delaware, was helping lure the embryonic car company to a shuttered General Motors Co. factory four miles from his house in Wilmington, right across the tracks from Biden Park. Soon, Fisker Automotive, a two-year-old business that has yet to sell a car, won loans from the federal government totaling \$528 million.

A DOE spokesman claimed that, in the *Journal's* words, the subsidy decision process is insulated from politics. Oh sure, and I drive an emissions-free car that runs on fairy dust.

As the following snippet illustrates, multiple Delaware politicians teamed up to tilt the system to their state's advantage:

On June 1, GM said it was closing 14 plants, including the one in Delaware... State officials and politicians were determined to keep it alive. In the middle of August, they learned the plant had drawn interest from Fisker. CEO Henrik Fisker came to see it and dropped by the office of a Delaware senator, Tom Carper, a Democrat. The visit unleashed a flurry of activity. Gov. Jack Markell, also a Democrat, quickly called an old friend at Kleiner Perkins to check on Fisker. Kleiner Perkins itself has political roots. A leading partner, John Doerr, sits on President Barack Obama's economic advisory board, and another partner is former Vice President Al Gore.

Of course, the story can't end without some grandstanding from the master of hyperbole himself, Joe Biden:

In a rousing speech, Mr. Biden recalled how every election year, including his first in 1972, 'I would stand here at this gate and shake hands at every shift.' He told of many 'long talks' he said he had had with Mr. Fisker. He called the project 'a metaphor for the rebirth of the country.'

The article is long, but worth the read for those concerned that American capitalism might be taking a [corporatist turn for the worse](#).

[Tad DeHaven](#) • [December 16, 2009 @ 8:52 am](#)

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