

Squandering the Public's Money and the Public's Trust

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Perhaps the most serious consequence of the Solyndra debacle isn't the loss of the public's money, but the loss of the public's trust.

Though the facts are still being sorted out, it seems clear that Solyndra—a politically connected “green” business—obtained a half-billion dollars of government loan guarantees for a business plan that was of great political value but dubious financial value.

In fact, the entire \$38.6 billion “green jobs” loan program is likely of dubious value; according to news reports, half of that money has been spent with only 3,545 new jobs to show for it. That's a cool \$5.4 million per job.

It's a political embarrassment for the Obama administration, to be sure, and any waste of public money is worth lamenting. But for a nation that measures its spending and debt in trillions of dollars, a few billion wasted on green jobs will soon recede in the 24-hour news cycle.

What can't be undone, however, is the collateral damage to the public's trust in government.

Polling data shows that it's already at a record-low: Less than 15 percent of the public currently approves of Congress's performance. And that figure has been falling for some time, as our government's record of Solyndra-style mishaps has endeared it less and less to the public. The Pew Research Center reports that trust in government peaked at about 77 percent in the mid-1960s—a figure unthinkable in modern Washington.

Abraham Lincoln understood the importance of public confidence in the government: “With public sentiment, nothing can fail; without it, nothing can succeed.”

Lincoln's point was that the public's “buy-in” is essential for many (if not most) of the functions of government to work as intended.

This is especially true of the government functions that nearly all agree are appropriate, such as enforcement of legal rights, protection of persons and property, prevention of fraud, assisting in enforcement of mutual agreements and contracts, and promoting competition and preventing monopoly.

Public cooperation in these respects facilitates social interactions and also raises economic productivity, saving firms time and money in their contractual arrangements and everyday business.

But a government that persistently engages in improper activities, squanders the public money on ill-conceived initiatives, and directs resources to favored interest groups—as our own has been doing in recent decades—loses legitimacy and the public's cooperation.

Politicians worry when this loss of legitimacy translates into harm for the careers of public servants; economists worry when it translates into harm for the private economy.

When government becomes less effective at doing its job, everyday commercial activity becomes more costly. Economic growth is further curtailed and private sector productivity falls, as do investment returns and employee wages. Instead of interacting in an economy where “everybody benefits,” incentives emerge for individuals and organizations to seek their own slice of a limited economic pie through lobbying. In fact, we already have experienced a good deal of this: lobbying expenditures nearly doubled from \$1.44 billion in 1998 to \$2.85 billion in 2007. They increased another 23% by 2010 to \$3.51 billion.

The potential for a vicious downward cycle materializes: Successfully lobbying generates more wasteful spending, as taxpayer dollars are directed to politically-connected parties instead of their appropriate use (e.g. law enforcement or bridge-building). Cue greater mistrust, less cooperation, further reductions in private sector productivity, and economic stagnation.

One episode like Solyndra did not put us on this path; rather, it was a series of events of which the “green jobs” fiasco is only the latest example. The solution is a return to the proper scope of government, one that excels at delivering public services while leaving investments in green-technology to the private sector that makes decisions on potential economic value instead of lobbying dollars spent.