

Grading the Legislature: Innovation Can Not Be Legislated

SB 289 – West Virginia Innovation and Development Act

Grade: D

Senate Bill 289, if passed, would establish a West Virginia Economic Development Authority. I commend the West Virginia Legislature for recognizing the importance of economic growth within the state. However, this policy suffers from a commonly made error on the part of policy makers—thinking that the private sector will grow if a larger part of the state’s resources are devoted to government. In other words, leaving the tax revenue within the private economy does more to help growth than does the government taking it through taxation then trying to spend it. History around the world, and in West Virginia, attests to the fact that a larger government sector as a share of an economy stifles growth. Cutting government size, through spending and tax reductions, does more to aid economic development than does a government program that taxes that money out of the private sector and then spends it.

Economic growth is a spontaneous process and, as a result, nobody has a clear sense of nature of the economy in the future—even the relatively near future. For example, imagining an entire music collection in the palm of your hand would have been ludicrous in the age of vinyl records, yet that is exactly what consumers have the option of choosing today. If the state government is granted with the power to select winners and losers—which is exactly what this bill allows our government to do—we all lose out by virtue of the distortions to the economy caused by a shortage of information about the future of the economy.

Moreover, the degree of rent seeking that will take place in order to curry favor with those in Charleston further reduces the size of the economic pie. Rent seeking, or lobbying for favorable political treatment, is a particularly destructive force against economic development. Instead of utilizing resources towards producing valuable goods and services, lobbying companies divert these resources away from the productive process and into the political process. If the gain that the company receives is as a pure transfer—a best-case scenario when their benefit is exactly equal to the loss of another group—then lobbying *always* produces a reduction in social welfare due to the efforts required to secure the transfer in the first place. This is in stark contrast to market activity, whereby efforts in pursuit of voluntary exchange generate better products manufactured in more efficient ways—outcomes that benefit society as a whole. An expansive government not only imposes a heavy burden upon its citizens, but also encourages groups to pursue ever more government activity that may benefit small groups, yet produce deleterious economic-wide effects.

Many people feel a comfort in the government taking an active role in the economy; after all, the market economy is unplanned, and uncertainty breeds anxiety. However, do not mistake government activity for a free lunch—every dollar spent by government comes out of the private sector elsewhere in the form of taxation. Our politicians in Charleston cannot conjure economic growth from the mountain air. The issue is whether the money

is better allocated if left in the private sector, or if government officials can somehow be able to allocate that money even better. Evidence suggests the former, as public spending is often driven by interest groups and political pressures. Furthermore, this type of reallocation of resources creates its own uncertainty, in both the scope and frequency of its potential activity.

Besides, there already exists a process by which to select winners and losers within West Virginia, and every individual plays a role—it is called free-market capitalism, and it's been making the world wealthier for hundreds of years. We should embrace it, and let individual taxpayers in West Virginia drive the process of economic development through their own spending. Simply put, this bill would be a great idea if it were costless to the West Virginia economy, but alas, there is no such thing as a free lunch. Economic growth within West Virginia would be best served by taking the funds intended for this program and returning them to whom they rightfully belong—the citizens of West Virginia who paid them, not businesses lobbying for political favoritism.

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