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A case study in pay-to-play cronyism

By Dan Epstein

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News flash: Government subsidies and special-interest favors go hand in hand.

The latest example comes from a federal green-energy loan program. Last month, the DC District Court **ruled** that Cause of Action, where I am executive director, can **proceed with a lawsuit**against the Department of Energy. We're suing the federal government for the blatant political favoritism in its $25 billion "Advanced Technology Vehicle Manufacturing Loan Program."

In principle, this taxpayer-funded program was supposed to support the manufacture of energy-efficient cars. In practice, it rewarded a select few well-connected companies.

Since the program was created in 2008, numerous businesses have applied for its taxpayer-backed financial support. Yet only a small number were approved. Among the lucky few were two electric car manufacturers: **Tesla**and **Fisker**.

Both companies' political connections run deep, especially Tesla's. The company's founder, Elon Musk, was a **max donor** for President Obama. One of its board members, **Steven Westly**, was appointed to a Department of Energy **advisory board**. And another Obama bundler, Tesla investor and adviser Steven

Spinner, **secured employment** in the department's Loan Program Office—the very office that gave the company a taxpayer-backed loan.

Fisker also has friends in high places. The company, which has since **gone bankrupt**, **was backed** by a San Francisco **venture capital firm** whose senior partners **donated millions** to the 2008 Obama campaign and other Democrat causes. **One partner**, **John Doerr**, parlayed his support into a seat on the President's Council of Jobs and Competitiveness.

Such connections can allow a company to exert political pressure to enrich itself. Unsurprisingly, Department of Energy emails show that such pressure was rampant in its loan programs.

There's no shortage of examples. The department's leaders—including then-Secretary of Energy Steven Chu—repeatedly promised to deliver results to politicians like Rep. Steny Hoyer (D-Md.) and Sen. Harry Reid (D-Nev.). **One emails reads**, "DOE has made a political commitment" to approve a company's loan. Another says the "pressure is on real heavy" from none other than Vice President Joe Biden. And still **another shows** an employee asking, "what's another billion anyhow?"

Unsurprisingly, the Obama administration gave Tesla and Fisker preferential treatment, and then some.

The Department of Energy revised its review process in order finish the companies' applications faster. The government **gave them extraordinary access** to its staff and facilities—even to the point of having government employees personally walk them through the loan application and approval process. The department ignored its own lending rules in order to approve the companies' loans. And it **renegotiated the terms of some loans** after the companies could not keep their original commitments or were experiencing financial difficulties. Tellingly, Fisker has since gone out of business, despite receiving over a billion dollars in loans through this federal program.

Now contrast this preferential treatment with what happened to XP Vehicles and Limnia, neither of which have the same political connections. (My organization is suing the Department of Energy on their behalf). The two companies partnered to manufacture an energy-efficient sport utility vehicle that would have competed with Tesla and Fisker's cars. They applied for loans in 2008 and 2009 under the same loan program.

The department refused them both—and it used bogus reasons to do so.

For starters, the department made claims that were laughably false. To take one example: It rejected XPV's application because **its vehicle was powered by hydrogen**. It was an electric SUV. It also raised objections that it didn't raise with other companies whose applications were approved. For instance: The bureaucracy **criticized** the proposed all-electric vehicle for not using a specific type of gasoline. Yet Tesla and Fisker received the loans despite producing similar all-electric cars.

In light of these obvious problems and hypocrisy, both companies presented the Department of Energy with detailed rebuttals. Yet the government failed to respond. To this day, both XPV and Limnia are awaiting a satisfactory reply. In the meantime, **XPV has gone out of business**, unable to compete against its politically connected—and subsidized—rivals.

This casts the Department of Energy's loan program in a new light. It was sold to the American public as a means of promoting energy-efficient vehicles. Instead, it was used to benefit a select few well-connected companies. It was a blatant crony handout, paid for by the U.S. taxpayer.

Sadly, similar examples are widespread in Washington. That's no surprise considering the feds spend **roughly $100 billion a year** in taxpayer-funded handouts to businesses. This breeds the sort of government-business collusion Americans think is rampant in Washington. In fact, **over two-thirds of likely voters** think the federal government helps businesses that hire the most lobbyists, shake the right hands, and pad the right pockets. They're right.

This points to a simple conclusion: Politicians and bureaucrats shouldn't use the public's money to pad private companies' bottom lines. As the Department of Energy’s green-vehicle loan program shows, the capacity for corruption is immense—and inevitable.

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