Analytics

Published by the Caesar Rodney Institute

RELEASE: CRI - Center for Economic Policy and Analysis

RE: Lessons learned from Fisker Motors

DATE: 8/16/2012

Since the state of Delaware awarded Fisker Motors an interest free loan of $12.5 million and a $9 million grant, what has transpired and what lessons can be learned from this?

Following the loan and grant from the state and a $529 million federal government loan guarantee, things have been ugly. Fisker decided to use government money to build its prototype sports car, Karma, in Finland rather than the United States. Then, two Karmas have literally gone up in flames. Adding insult to injury, a Karma purchased by Consumers Report died on the test track and had to be hauled away.

Fisker has undergone a total reorganization at the top with the current CEO leaving after only a year at the helm. Total senior management shakeups where the founder is taken out of the decision making loop always indicate serious operating problems and pending financial failure.

Recently it has come to light that the venture capital firm behind Fisker, Kleiner Perkins Caufield & Byers, has numerous ties to government. Former Vice President Al Gore is one of the firm's senior partners. Billionaire John Doerr has been a major financial backer of President Obama and serves on the President's Council on Jobs and Competitiveness.

What lessons can be learned from this?

First, although it has been evidenced time and again, governments are poor investors. As John Steele Gordon notes: "Politicians make political decisions, not economic ones - they're playing with other people's money, after all." Investments in infrastructure such as the Erie Canal and the national highway system qualify as being logical for government support. Infrastructure requires huge up-front investment; the power of eminent domain; and, has large economic spillover effects.

Politicians are more prone to rhetoric than due diligence. In its initial review of the Fisker project ("Fisker's Folly?) in 2010, CRI questioned whether the promised sales goal of 100,000 units by 2014 could ever be met. Using readily available government data, CRI estimated that Fisker would have to capture about one quarter of the plug in electric hybrid market, a greater market share than Honda, with a price double the prevailing market price, and with no extensive service network. The analysis took about 30 minutes to complete and conclude that backing Fisker with taxpayer money was a fools bet.

Second, states dominated by unproductive entrepreneurship, where bright rent seekers lobby government for subsidies and regulatory exemptions, have lower rates of economic growth. Productive

entrepreneurship, where personal financial risk is the defining characteristic, has been evidenced by research to be the primary source of economic growth.

In his *Blueprint for a Better Delaware* Governor Markell states that "the most effective role government can play in economic development is to create an environment in which economic activity can be vibrant…Delaware should not be in the business of picking new industries to bet on…" Reasonable and stable taxes and regulations are far more important to business development than the tax payer's money the state may throw on the negotiating table.

According to *The News Journal*, Delaware has almost $20 million into the Fisker hole and continues to pay the gas and electric bills at the idle Boxwood Road Fisker facility. In 2010 the average state personal income tax paid per return was $1,994. Translated, the $20 million represents the total state personal income tax paid by over 10,000 Delaware households.

No one expects state development grants to be 100% risk free, but citizens do expect due diligence on the money given away. The state clearly dropped this ball with respect to Fisker. Moreover, the state apparently has no system in place for tracking the outcomes of the millions of dollars provided in grants and low interest loans from the Delaware Strategic Fund. Would anyone voluntarily put their money in a bank that disregards loan performance?

The "subsi-preneurs" preying on the hopes and ambitions of politicians will ever be circling. Making bets with money from tax payers who have no vote in the bet being made to subsidize private companies that don't meet the test of the private market, is a recipe for failure. Delaware's elected officials must do better to maintain "an environment in which economic activity can be vibrant."

Dr. John E. Stapleford, Director
Center for Economic Policy and Analysis