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Free the Market to Better Satisfy Consumers' Needs

HB 3324

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Key Points

- Consumers' needs are best answered by a market that is free of government intervention.
- HB 3324 would create a program that could use taxpayer money to financially support grocery stores that sell healthy food in underserved areas.
- Economic development programs that allow government to grant preferential treatments to some businesses over others distort the market and shift the burden of taxation.
- Perceived market failure to answer existing demand can result from too much government intervention, not too little.

Quite often these days, government decides to intervene in the economy under the rationale of making our lives better. Whether it is property rights restrictions and land regulation (Hunker), regulation of business activity (Peacock and Barr), or by granting preferential treatments to some businesses over others (Hunker et al.), government intervention, far from helping individuals and creating jobs and growth in the process, obstructs our way to opportunities and prosperity by limiting innovation and the creation of wealth. The next big innovation might be stalled because of a local regulation, a competitor that benefits from a government subsidy, or the burden of taxation (someone has to pay for the competitor's subsidy).

The way to failure, in the case of government intervention, may be paved with good intentions, but the pavement becomes more slippery with every new government program. Government, thinking it knows better what individuals want and how to provide for their needs, is in the business of economic development: using taxpayer money to fund private businesses in order to 1) create jobs, 2) generate growth, or 3) fulfill a need that the market would fail to provide. Concretely, money from a large number of taxpayers is transferred to the benefit of a few businesses.

HB 3324 seeks to create the Texas Grocery Access Investment Fund in order to "provide financing to construct, rehabilitate, or expand grocery stores, mobile markets, farm stands, and other eligible projects as determined by the department [of Housing and Community Affairs] to increase food access in underserved low-income and moderate-income areas in this state." The fund could be composed of federal, state, or private money and loans, including money appropriated by the Texas Legislature. The program would be operated through a public-private partnership (HB 3324).

Applicants could be for- or non-profits and, among other criteria, would have to "demonstrate . . . the likelihood that the project will be economically self-sustaining" and show their "ability to repay any loan required to be repaid." The organization in charge of deciding which projects would receive financing would have to consider whether a project for a grocery store "is expected to be economically viable" (HB 3324). A positive answer to these should be enough for these projects to find private investors, if the projects are expected to be profitable.

Other criteria to obtain financing include "the level of need in the area to be served" and "the amount of public funding required to make the project move forward, create an impact, or be competitive" and "the degree to which the project will have a positive impact on food access and a positive economic impact on the underserved area, including by creating or retaining jobs for local residents" (HB 3324). There are several issues with these:

- **Government intervention distorts the market.** When government grants preferential treatment to some businesses—whether in the form of preferential tax

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treatments, subsidies, a favorable regulatory system, or other form of assistance such as low-interest loans (Hunker et al.)—it creates a competitive disadvantage for all businesses that do not benefit from government's preference while they still have to shoulder the burden of taxation to fund these special treatments. In that case, it may mean that the local Whataburger or 7-Eleven franchisees now need to compete with a grocery store that is backed by taxpayer money.

- **Government's knowledge is limited.** Only a free market and its supply and demand and price mechanisms are able to best answer consumers' needs by appropriately allocating resources. When government tries to intervene, by "creating" supply or demand, it actually creates waste and malinvestment by using resources that could be used more efficiently elsewhere.
- **Government does not "create" jobs.** Jobs are not created by government programs, they are created by businesses that create value for their consumers. Whenever government uses taxpayer money to pick winners and losers, it potentially destroys jobs—by favoring some businesses at the expense of others—or hinders the creation of value, and hence the creation of jobs, by shifting the burden of or increasing taxation levied in order to pay for government programs.

Finally, HB 3324 would require that recipients of financial aid agree, for a period of five years, to accept benefits under the federal supplemental nutrition assistance program and to provide access to a certain category of food. Once again, the program would allow government to pick winners and losers by deciding not only what individuals may need but what they may want.

HB 3324 comes with the good intention to remedy a lack of grocery stores and healthy food in underserved areas. But the freest a market is of government intervention, the better the demands of its consumers can be satisfied. The role of a limited government is not to use taxpayer money to financially support some businesses at the expense of others: not only is it unfair to those taxpayers—individuals and businesses alike—who carry the burden of subsidizing others (including, for businesses, their competitors), but it has proven inefficient at best.

Entrepreneurs will create the solutions to consumers' needs, only if they are left free to innovate and can keep as much of their hard-earned money as possible, which means focusing on reducing the burden government puts on Texans' shoulders—such as decreasing property taxes, reducing zoning regulations as well as occupational licensing regulations, and letting businesses compete free of government favoritism—not creating additional programs that would increase that burden.

Reference List

HB 3324. 2017. Introduced. 85th Legislature (R).

Hunker, Kathleen. 2016. *Bringing Down the Housing Restrictions*. Texas Public Policy Foundation.

Hunker, Kathleen, Carine Martinez-Gouhier, and Bill Peacock, eds. 2016. *Policymaker's Guide to Corporate Welfare*. Texas Public Policy Foundation.

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