



A Ferry Tale of Two Cities: Lansing and Muskegon

by Lawrence W. Reed

Summary

Governor Engler recently announced \$18.4 million in grants for 13 communities, including \$650,000 to subsidize a Wisconsin-based, cross-lake ferry business that will compete with an existing, Michigan-based, unsubsidized ferry service. The legislature needs to take a hard look at this and other examples of the state unfairly competing with private businesses.

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The primary beneficiary of the government grant will be a private, Wisconsin-based firm, HydroLink, Inc., which will compete with Michigan-based Lake Michigan Carferry, an unsubsidized ferry service.

When foreign companies are subsidized by their governments so they can sell their goods in American markets below cost, we call that “dumping.” Understandably, many Americans get upset about it, especially if they own private businesses which must compete with that sort of thing or if some of their taxes are subsidizing the foreigner through U. S. “foreign aid.”

It may come as a surprise to some, but here in Michigan we do not have to look overseas to find a source of such unfair competition. We do not have to look any further than our own state government and some of the projects it supports. Governor Engler’s office, unfortunately, has just given us another example.

In early August, the Governor announced \$18.4 million in grants for 13 communities. The money came out of the \$675 million “Clean Michigan” environmental bonding plan that was approved by voters last November. Among the grants was one for \$650,000 to the city of Muskegon for development of a cross-lake ferry dock to support a proposed high-speed ferry service to Milwaukee, Wisconsin. A primary beneficiary of the project will be a private Wisconsin-based firm, HydroLink, Inc., which is to eventually run the ferry service between Muskegon and Milwaukee. It will operate in competition with a Michigan-based private firm, Lake Michigan Carferry, which runs an unsubsidized ferry service between Ludington and Manitowoc, Wisconsin.

The idea of the state subsidizing a local government to jumpstart a business in competition with a taxpaying private firm harks back to Michigan’s early days as a state. In the late 1830s and 1840s, state government was heavily involved in railroads, canals, and other enterprises. This socialist experiment proved to be an unqualified financial disaster and in 1850, voters approved a constitutional amendment that expressly forbade the state from ever again involving itself in such projects—a move that immensely aided Michigan’s development by encouraging private entrepreneurs.

Subsequent amendments and other actions of state government have severely compromised the intent of the 1850 provision.

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Competition with the private sector is rarely regarded by career bureaucrats in Lansing as a barrier to state activity today. According to news reports, the Governor's spokesman John Truscott indicated that, "No consideration was given to whether one [government-funded] project was considered to be in competition with another" nor, apparently, if one government project was in competition with a private one.

The implications of the state grant to Muskegon, to be supplemented with local tax funds, were not lost on the folks who run Lake Michigan Carferry. Thom Hawley, a spokesman for the company, said, "We do consider the grant to be a financial subsidy that gives potential competition a significant advantage." He points out that since 1992, his firm has operated its ferry service from docks that it paid for in both Wisconsin and Michigan.

Manitowoc Mayor Kevin Crawford does not think Michigan's subsidy scheme is a good idea, either. He says if a new ferry is launched, "it should be the responsibility of the company owners" and not government, just as it was with Lake Michigan Carferry. He points out that the president of HydroLink is up to his eyeballs in lawsuits and debts (\$1.2 million in back taxes to the IRS alone) and is seeking federal subsidies for the ferry service, which would supplement Michigan's grant to Muskegon. There may be good reason for taxpayers everywhere to be wary of an operation that says it needs subsidies to do business.

Many other examples of unfair competition from government-subsidized activity exist. For instance, some of the state's public universities have been deeply involved in competition with private businesses in areas quite remote from their educational missions. These include computer sales, florist shops, hotel and conference centers, sign-making, golf courses, printing, packaging, optical and hearing aid clinics, and tennis clubs. Usually, these university entities don't even pay rent and never pay taxes. When they market their products on that basis to the general public, it is understandable that private entrepreneurs are unhappy that their own tax dollars are competing against them.

This problem of public-sector competition has crept up on us with little legislative consideration of its limits or implications. The case of the ferry subsidy in Muskegon tells us it is time for the legislature and the general public to start raising some serious questions about it.

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