



State Lawmakers Should Cut Business Subsidies Even More Next Year

Summary

Lawmakers made a small cut to the subsidies the state gives to businesses. Since subsidies are inefficient and unfair, lawmakers ought to cut them back much more.

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By James M. Hohman

Among the many changes in the state's new \$56.8 billion budget was a \$10 million reduction in key business-subsidy programs. Let's hope that it signals less support for these subsidies, which are ineffective at creating jobs and are a waste of taxpayer money.

The budget includes spending \$105.4 million on the "business attraction and community revitalization" line item. This money gets spent on subsidies for real estate development and business expansion projects that pledge to create jobs.

But most jobs are created without taxpayer money. Nearly all, in fact, appear without state economic developers saying much about them. Michigan lost 221,400 jobs from July through September of 2017 and added 196,700, according to the Bureau of Labor Statistics. It was a rare three months in the current recovery where Michigan lost more jobs than it gained. Over this period, the state awarded 23 companies subsidies to create 3,700 jobs, just 1.7 percent of the jobs that disappeared.

As a group, companies that get taxpayer assistance aren't going to create all the jobs listed in state press releases. A third of these deals break down: The jobs may not be created, or they disappear altogether, and sometimes taxpayer money simply goes out the window. A careful reading of the economic data suggests that the cost of assistance programs outweighs their benefits.

The state subsidizes business in other ways and through other programs, too. In fact, most state spending on business subsidies doesn't go through the budget at all. That's because the bulk of it gets run through the tax code. State economic development administrators signed deals with select companies to give them "refundable tax credits," which amount to outright cash payments. Those refundable tax credits tend to exceed the companies' tax liabilities, meaning that the business tax is a vessel to get money from the government to the business instead of the other way around.

In the current fiscal year, the state expects to pay these companies \$788 million more than they owe. These credits are so large that they cost the state budget more than the proposed income tax cut last year, which failed to earn enough support in the Michigan House.



Through business subsidies, select corporations cut in line for the attention of lawmakers.

This whole endeavor is also more than a little unfair. Only a portion of companies get these deals. Everyone else, from regular taxpayers to the competitors of the businesses receiving the subsidies, has to pay for them.

The companies that gain from these deals also get to cut to the front of the line for taxpayer support. They don't have to argue for their importance in the budget like other people that get taxpayer dollars.

Even though — or perhaps because — these subsidies are ineffective and unfair, politicians feel compelled to keep providing them. In a recent interview on Michigan Radio, former state Senate Majority Leader Ken Sikkema reiterated the justification. “The larger issue is that the state subsidizes some business development; basically these big corporate blockbusters like Amazon’s new headquarters or Foxconn which eventually went to Wisconsin, because other states and other cities have these incentive programs as well. And Michigan just can’t unilaterally disarm.”

As mothers everywhere ask, “If your friends jumped off a bridge, would you do it, too?” If these subsidies were indeed effective tools that drove job creation and economic growth, then maybe the state would want to compete with its own subsidy largesse. But they’re not, so states should not offer them.

It may be the bigness of the businesses that drives subsidies to them. For if it is not about effectiveness or fairness, then it may be about status. The people that get these business subsidies may simply have higher status than regular taxpayers. The next governor and legislature should have a different assessment.

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