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Amazon and Foxconn Ignite Opposition To Business Subsidies

By James M. Hohman

Summary

Politicians like to lure big corporate projects to their states, but the gamble with taxpayer money rarely pays off.

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Business subsidies took a punch after people decried taxpayer support for Amazon's second headquarters and Foxconn announced that it was scaling back its plans for a Wisconsin plant. Both projects were hyped by local politicians, who thumped their chests about bringing jobs to their state.

New York Gov. Andrew Cuomo said he'd change his name to "Amazon Cuomo" if it were needed to land the project. Wisconsin Gov. Scott Walker said that Foxconn would bring "the future of manufacturing to the U.S., and Wisconsin will be the leader," and he dubbed the region the company would be coming to the "Wisconn Valley."

At their core, projects like these are about using taxpayer money to get news and hype a region's economic prospects. They get a ton of attention. The winners talk about how important it is to win. The companies say nice things about the winners. Politicians claim that landmark deals will transform the economy and change the narrative for the states and cities that land the white whale.

But that's not how economies get developed.

Michigan already has a handful of programs designed to subsidize footloose businesses. Lawmakers used them in their bids for both Amazon and Foxconn. But high-profile developments are just not large enough to make a dent in economic trends, especially when the massive job churn that's part of a normal economy is considered. In the first three months of 2018, Michigan lost 172,700 jobs. It also added 215,000 jobs. Over the same period, state officials gave out awards to 16 companies that pledged to create 1,120 jobs. If we had to rely on politicians to replace the jobs lost in the economic churn, the economy would suffer: Less than 1 percent of those jobs would be replaced.

Even that number overstates the power of politicians to bring about significant economic changes. The companies that get these deals rarely live up to expectations. In one of the old state programs, only 2.3 percent of companies created the number of jobs that were announced. And even when the jobs numbers pan out, the taxpayer expense associated with the projects — some of which would have occurred without taxpayer support — puts in doubt the economic gains. Consequently, the state usually comes out behind.



Business subsidies are bad news
for taxpayers, citizens.

So it's good that people around the country have become skeptical about these deals.

As Alan Peters and Peter Fisher concluded in their 2004 review of the academic literature on these economic development programs,

The most fundamental problem is that many public officials appear to believe that they can influence the course of their state and local economies through incentives and subsidies to a degree far beyond anything supported by even the most optimistic evidence. We need to begin by lowering [policymakers'] expectations about their ability to micromanage economic growth and making the case for a more sensible view of the role of government — providing the foundations for growth through sound fiscal practices, quality public infrastructure, and good education systems — and then letting the economy take care of itself.

Instead of creating new programs to subsidize companies, public officials should develop a healthy reluctance to give taxpayer money to the next business that comes around looking for a handout.

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