

Corporate welfare goes one for eleven in job creation

Economy-altering breakthroughs take time

By James M. Hohman | January 2025

Michigan lawmakers hand out more business subsidies than their counterparts in every other state, according to an analysis by the Site Selection Group. For all this favoritism, however, Michigan does not get better economic performance. Indeed, the companies that get deals from the state rarely live up to their own expectations.

Elected officials make job announcements when they ink deals with businesses to establish their next office or factory in Michigan. “Michigan’s future is bright, and I will continue working with anyone to make transformational investments in our economy, create good-paying jobs, and empower working families,” said Gov. Gretchen Whitmer when handing out \$660 million in subsidies to General Motors in 2022.

But companies rarely deliver the jobs that are announced. A look at the major deals Michigan lawmakers made from 2000 to 2020 found that companies created just 9% of the jobs that were announced. That is, one job is created for every 11 jobs that are proclaimed in news stories.

Lawmakers and administrators are happy to broadcast their job announcements, but they stay silent when their deals fail. Because of this, voters likely have a mistaken impression about the effectiveness of business subsidies.

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Selective subsidy deals do not deliver what their own supporters say they will do.

The number of jobs should not be the standard by which subsidies are judged. Business subsidy programs are created to develop the economy and should be judged by whether the state economy grows.

The fastest growing states do not write more and bigger checks to select companies. They instead have better policies that affect all businesses. Idaho, for instance, added the most jobs among the states over the past year, and it offers some of the least in special favors.

Economists use sophisticated methods to tease out the effects of economic development programs. Sometimes they find positive effects from these programs, but more often they find negative effects, and they never

find large effects. When lawmakers proclaim that their deals will transform their state's economy, they are using hyperbole.

Economic development programs are not about developing the economy, for announcements rarely turn into jobs. Yet politicians still benefit when they hand out business subsidies. People care about jobs, and bestowing favors on select companies shows that lawmakers are doing something about jobs.

People ought to be more skeptical of rosy announcements. They have been misled about the effects and effectiveness of business subsidies. In deal after deal, lawmakers say they are securing the state's economic future, but Michigan continues to fall behind other states.

A change in the public attitudes about business subsidies would go a long way toward refocusing lawmakers on broad based improvements to the state's business climate. Doing something to ensure cheap and reliable electricity, remove barriers to work, and reduce the state's tax burden — all within lawmakers' powers — would do much more than spending further billions on ineffective business subsidies.

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