VIEWPOINT
ON PUBLIC ISSUES

November 1, 1999 • No. 99-40 • ISSN 1093-2240

Economic Freedom, Not Government Favoritism, Brings Jobs to States

by Don Carrington

Summary

Companies base their decisions about where to create new jobs not on government programs that offer them selective subsidies or tax credits, but on the overall freedom of a state's business climate. To attract more jobs for its citizens, Michigan should lower its tax and regulatory burden evenly for everyone.

Main text word count: 732

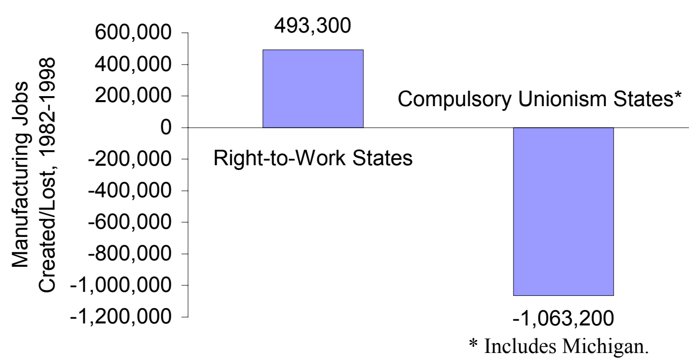
Twenty years ago when I was an industry recruiter—charged with attracting businesses to my state—I considered it an honorable profession. My job consisted of providing useful information so that businesses could make informed choices about where to build or expand plants in a free market. Since then, however, something has gone terribly wrong.

Myths, bribes, and flawed economics have become the primary components of today's industry recruiting programs. This is true in most states, including my home state of North Carolina as well as Michigan, too.

State "economic development" officials now compete against each other to attract jobs by offering subsidies and tax abatements to selected industries. Instead of trying to outdo each other with government handouts or other special favors, states should focus on providing core government services at a reasonable cost. Ultimately, quality services make far more difference in business location decisions than do gimmicky subsidies and abatements.

No company should be faulted for accepting a tax credit when it is offered, just as no individual should be criticized for taking a credit to which he is entitled on his personal income tax form. But businesses—and the economy generally—would be better served with a climate of lower tax burdens for all and special treatment for none.

Job Providers Move to States Where Workers Enjoy More Economic Freedom



Source: U. S. Bureau of Labor Statistics

Other factors, including freer labor markets that do not force workers to join unions, influence plant location decisions more than do selective government subsidies and tax abatements for favored companies.

This "fair field and no favors" approach makes the greatest sense once we dispense with the three most common myths about economic development.

Myth #1: Government creates jobs. Industry recruiters for state governments often make this claim when they defend the practice of offering favors to certain companies. However, when those favors merely shift the tax burden away from a few instead of lowering it for everybody, or dole out subsidies to some at the expense of others, what has really been gained?

continued on back

In the end, only the private sector creates jobs; government merely redistributes them or prevents them altogether. When government provides poor services at high costs, it sends a strong signal to entrepreneurs to find greener pastures elsewhere—destroying job opportunities in the process.

Myth #2: The fact that some companies accept tax credits or subsidies to locate or expand in Michigan proves that special favors work. Before receiving a Michigan Economic Growth Authority (MEGA) tax credit, a firm has to sign a document claiming it chose Michigan because of the credit. But nearly every study ever done of business location decisions has found that the fundamental, long-term business climate conditions in a state are far more important than short-term handouts.

If state government officials were completely honest and careful in their pronouncements, they would say that their selective favors almost always shift jobs from one business to another or from one part of the state to another part. They would also total up the negative impact on companies that do not get the favors, but have to compete against those that do. Unfortunately, government programs are usually more hype than substance, more photo opportunity than real job creation.

Myth #3: States have to engage in discriminatory favors to compete with other states that do it. Subsidies and abatements distract from what governments really ought to be doing, and they can rarely overcome negatives like a poor school system, high crime rates, excessive taxes and regulations, and substandard infrastructure. States should be working harder to erase those negative factors.

A recent report from the State Policy Network ranked North Carolina ahead of Michigan in economic freedom. Michigan does not need more subsidies and abatements to become more competitive with my state. It needs what we have in North Carolina: Less government and a right-to-work law that prohibits compulsory unionism. As long as Michigan taxes its citizens more than we tax ours, and as long as a million Michigan workers are compelled to finance Big Labor, North Carolinians will not worry about MEGA and other programs like it.

Michigan citizens should not be concerned about losing projects to other states that offer more flashy (and costly) favors. What they should be concerned about is being one of the last states to realize that these discriminatory, beggar-thy-neighbor programs are bad public policy.

Government's most important contribution to economic development consists of keeping the burdens it imposes on businesses minimal and improving core services like education, transportation, and public safety. The first state to recognize and practice that strategy will be the one that wins the top prize for economic development.

#####

(Don Carrington is vice president of the Raleigh, North Carolina-based John Locke Foundation and an adjunct scholar with the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Michigan. More information on economic development can be found at **www.mackinac.org**. Permission to reprint in whole or in part is hereby granted, provided the author and his affiliations are cited.)

Michigan citizens should not be concerned about losing jobs to other states that offer more government favors. What they should be concerned about is being one of the last states to realize that these discriminatory, beggar-thy-neighbor programs are bad public policy.

Joseph G. Lehman
Vice President of Communications
140 West Main Street
P.O. Box 568
Midland, MI 48640

Phone: (517) 631-0900
Fax: (517) 631-0964

www.mackinac.org
Lehman@mackinac.org

MACKINAC CENTER
FOR PUBLIC POLICY