



Direct Cash Grants: Anti-Crony Capitalism Policies Fall Short

By James Hohman

For equitable economic growth over the long-term, it's essential to take a no-favors approach. This promotes a fair playing field for everyone, not simply the lucky few.

The first few years of Gov. Snyder's administration characterized this viewpoint. Policymakers eliminated the state's complex and favor-laden Michigan Business Tax and replaced it with a flat corporate income tax with few credits. In addition, the burden of business taxes was lightened, allowing job-creators to keep more of their money.

Legislators also eliminated a multitude of credits, including the state's flagship incentive program, the Michigan Economic Growth Authority. Unfortunately, these were replaced by discretionary cash payments to business expansions.

Direct cash grants do have some merit compared to refundable tax credits — the Legislature can stop them at any time. Now is that time.

Consider that the state awarded \$253 million in tax credits in 2004 and the last of these officially expire in 2024. The costs of these tax credits were pushed onto tomorrow's taxpayers.

Just because the new cash disbursement program is different, however, that does not mean it has been used less often. Far from it: In the first two years of the Snyder administration, the Michigan Economic Development Corp. awarded incentives to 92 projects under MEGA and its successor program, the Michigan Business Development Program. To put this in perspective,

there were only 64 MEGA deals made during the first two years of the Granholm administration.

There have also been more deals announced, though they have been smaller on average. There were 329 jobs announced in the average deal in the first two years of Gov. Granholm's deals. For the Snyder administration the average is only 224 jobs announced.

Summary

The first few years of Gov. Snyder's administration characterized the no-favors approach to economic growth. The current corporate subsidy policy of direct cash grants — while different than the former policy of refundable tax credits — is a disappointing move away from what was a highly effective approach.

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Direct cash grants to industries (e.g. film companies) are an unjustified use of taxpayer money, whether they're \$100 million or \$50 million.

These announcements rarely pan out as predicted. For every 1,000 jobs that they proclaim will be created by the projects they incentivize, only 294 ever materialize. Even then, the costs of the incentives mean that its economic impacts are unclear. Economic incentive literature remains mixed and a 2009 analysis of the MEGA program shows a negative connection.

Outside of the Michigan Business Development Program, there are still numerous other economic development programs that continue to be used. An attempt to eliminate state film incentives only capped the program and made it less generous. These favors to large film companies are an unjustified use of taxpayer money, whether they're \$100 million or \$50 million.

While these industrial expansion projects are large, and certainly someone will benefit from locating or retaining a footloose business project, they're economically insubstantial. Monthly announcements amount to 402 jobs per month — and, again, only a fraction of these announcements ever arrive. According to the Bureau of Labor Statistics, there were 831,179 jobs created from businesses opening and expanding in Michigan in 2012, an average of 69,000 a month. (The net job creation is much less because the state also lost 759,680 jobs due to companies closing and contracting.)

We should applaud the immense number of jobs created without needing to reach into taxpayer pockets to bring them here. That some expansions get taxpayer money and others don't is patently unfair. While improvements have been made to the business climate, politicians still feel the need to bestow favors upon selected companies. They should simply end the game.

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