



What Economic Development Transparency Should Look Like

By James Hohman and Eric S. Mosher

State lawmakers are considering an extension of Michigan's "21st Century Jobs Fund" program, which would be unfortunate: At the very least, this and other "legacy" corporate welfare programs must provide much greater transparency. Taxpayers should be able to see what they've gotten for the special benefits previously authorized for particular corporations and developers, which will continue to flow for a number of years.

Specifically, the Michigan Economic Development Corporation must be required to regularly report how much is being handed out and to whom by these programs — not just the amounts initially authorized. The information should be provided at the individual project and agreement level.

While the state produces an annual "tax expenditures" report listing the types and foregone revenue of individual and business credits, exemptions and deductions in the state tax code, it is completely inadequate for assessing economic development expenditures on their own terms, because these are inherently selective and targeted to particular companies while excluding others. Its outcomes can't be judged without disclosing information about the particular beneficiaries and projects.

Most new state "economic development" benefit offers are currently being channeled through programs that are more open. The state's new flagship in this area, the "Michigan Business Development Program," discloses online basic information about the actual number of jobs at subsidized projects and the actual cost to taxpayers. If you know where to look, it's possible to find the number of jobs that companies commit to creating and how many they claim to have actually created (almost always less so far).

The older programs are another story. The MEDC has been very good at announcing the job promises in each new incentive agreement with particular corporations and developers. Where it falls short is revealing what happens next.

This information is vital because MEDC projects have so rarely met their promises. A study of the previous "flagship" program found that, between 1995 and 2004, only 29 percent of promised new jobs ever

Summary

The Mackinac Center and PIRGIM argue together for increased transparency toward legacy corporate welfare programs. The need for government accountability should be an obligation, particularly since these projects so rarely achieve their projected goals.

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The Michigan Economic Development Corporation contributes to "crony capitalism" in that it picks winners and losers for government economic incentives. A good way to ensure that their programs are truly contributing to economic growth is to increase transparency with a government database.

materialized. And as state Auditor General reports found, companies' claims were not sufficiently verified, and these deals sometimes cost taxpayers far more than initially advertised. Yet currently, it remains impossible to even identify which projects fell short.

Moreover, projects can receive multiple perks from different state, federal and local agencies. Therefore, to the greatest extent possible, this state should develop a consolidated report and searchable database that shows all the economic development "incentive" offers made to particular firms under old and new programs. This should include the investment and job expectations and milestones for each project, plus how much companies actually collect, how much investment actually occurs and how many jobs materialize. If a project is canceled or otherwise never happens, this should be noted along with whether the company paid back its subsidies. The disclosures should contain explanations and footnotes sufficient to provide context and paint an honest picture of a given project (the absence of which has been noted by state auditors).

One model of a more comprehensive database comes from the federal disclosure site for the American Recovery and Reinvestment Act funds, better known as the "stimulus" program, www.recovery.gov. Entering the name of any project brings up quarterly reports on its activities, including how much it has received and how many people it currently employs.

Such details have recently assumed a critical level of importance here because legislators are eagerly discussing how to spend an anticipated current year state budget surplus. However, the "surplus" primarily consists of timing decisions by a handful of companies that may be eligible for massive tax breaks and/or subsidies under those legacy programs. In other words, it's a phantom surplus, the nature of which should be disclosed to taxpayers before legislators start spending it in supplemental appropriations bills.

As policymakers continue to create new economic development programs, legislators need to insist on some basic transparency principles. That's just common sense.

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