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Corporate Handouts: Lansing Politicians Should Care About the Science

By Michael LaFaive

Summary

As legislators consider yet another subsidy program for select businesses, it's time to review the research. In short, such programs don't work.

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There's been a lot of talk during the pandemic about who is and who is not "following the science." If evidence and scholarly work is, in fact, important, politicians ought to pay attention to what research has to say about something else: government subsidies for select for-profit corporations. The findings are clear: Though many politicians love them, they don't work.

Senate Bill 615, introduced in late August, is a repeat of the "Good Jobs for Michigan" subsidy experiment, which expired in 2019. This time, it's called the "Michigan Employment Opportunity Program." The "Good Jobs" experiment was itself a repackaged version of the failed and defunct Michigan Economic Growth Authority, or MEGA, which cost Michigan taxpayers billions with little to show for it.

As with "Good Jobs," the new program would send checks from the state treasury to select companies. The state would keep track of how much income tax it receives from workers at those companies and then send the money to their employer rather than spend it on public services. The amount each company gets would be based on the number of new jobs it creates and what it pays those employees, but it could be 100% of what the employees pay in income taxes. The legislation would cap the statewide payments at \$300 million, and it would expire at the end of 2026.

It's more of the same failed approach of the past. Whether the state pays a subsidy from its General Fund account or a special fund makes no difference. State elites would again hand out favors through a business incentive program, even though nearly all scholarly evidence says such programs are, on balance, ineffective.

In 2020 the Mackinac Center analyzed state incentive programs, going back to 1983. We compared information from the state's past programs with a database, the National Establishment Time Series, which tracks employment and sales at businesses over time. We found that only three of nine program types we looked at showed a statistically significant impact on job growth. (That is, the job gains could not be explained by chance.) Even then, the benefits came at very high price of \$600,000 in incentives offered per job.



Study after study shows that targeted business subsidies don't meet expectations.

Our study, titled, “Economic Development? State Handouts and Jobs,” found that MEGA, on which the Good Jobs program and the newly proposed program rest, cost \$125,000 in incentives offered per job created. Six scholarly analyses, including our own, have scrutinized MEGA, and five found a zero or negative impact. A seventh study, titled, “Did Incentives Help Municipalities Recover from the Great Recession?” described MEGA as a debacle.

Scholars who looked at similar programs elsewhere have found an equally dismal record. Economist and university professor Nathan Jensen published an analysis in 2014 of the Promoting Employment Across Kansas program. The new Senate bill in Michigan follows the way PEAK was set up. PEAK allows corporations to capture employee income taxes (up to 95%) that would otherwise go to the state. Jensen found that businesses subsidized by this program were no more likely to create jobs than similar businesses that were not.

A great academic review of many of the hundreds of studies on the topic of government business subsidy programs was published in 2004. It concluded, “There are very good reasons — theoretical, empirical, and practical — to believe that economic development incentives have little or no impact on firm location and investment decisions.” Nothing published since then suggests that new programs will have better results.

You may wonder, “What do lawmakers present then in opposition to this mountain of research showing such programs to be ineffective?” The short answer is “nearly nothing.” Indeed, their evidence is on par with, “The program is effective because we say it is.”

Only once in 25 years of policy work have I seen politicians or their lieutenants defend these programs by using independent, scholarly research. Even then, it involved the redirection of a pointed question. The anecdotes that advocates of such programs do cite as success are the stuff of PR spin doctoring, not dispassionate scholarship anchored in a search of truth.

Members of Lansing’s political class owe us evidence that their corporate handout programs are effective before they adopt another one. Many scholars with no stake in Michigan’s policy fights have parsed corporate subsidy program data for years; they’ve repeatedly concluded that they don’t work.

It is imperative that those pushing SB 615 show hard evidence to the contrary, or abandon their efforts to hand out another \$300 million to corporations of the state’s choosing.

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