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How Should Policymakers React to Headlines About Business Decisions?

By James M. Hohman

Summary

A recent decision by Ford Motor Co. to build plants in Kentucky and Tennessee has lawmakers thinking again of enacting big subsidy programs for business. Instead, they should consider changes that would benefit a wide range of employers.

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The economy is larger than any one company, or even several.

Some generals strategize to win the last war rather than the next one. Some politicians fight over the last election rather than try to win the next. Both efforts are ill-advised, as circumstances change, and it's better to prepare for an uncertain future than challenge the nonrepeatable past. Lawmakers fall into the same trap when they think about big business projects: They're always trying to win a project that was already announced someplace else, whether it's Amazon HQ2 or Foxconn or even the latest Ford Motor Co. electric vehicle plants.

Changing state policy to try to do better next time doesn't make sense when there is no next time. Companies made their decisions in a unique situation, and they're not revisiting the matter.

There is a shred of insight in the desire to react to a recent event: After a loss, it can be good to see what went wrong so one can do better in the future. But this ought to happen in state policy only if lawmakers can be certain that what they're going to improve matters to future economic growth.

And lawmakers do get confused about the things that matter: They too often think that big projects drive economic growth and that announcements about new manufacturing plants are signs that some states are winning the battle for tomorrow's economy. This is a mistake. Besides being rare and nonrepeatable, these projects add very little to a state's economy. If the recently announced Ford plants meet the expectations — and big projects rarely do — they would account for just 1.1% of the job creation that happens in Kentucky and Tennessee in a given year. It's better to spend more time thinking about the other 98.9% of jobs rather than responding to big business news.

Nor would the new plants do much about the 890,000 jobs that disappeared in those two states each year. (Those states gained other jobs, however, and the net gain or loss shows up in job reports.)

If lawmakers are going to figure out what works, they ought to see where opportunities for work are expanding the most. When the size of each state's economies is taken into account, Utah and Idaho added the most jobs over the past decade, and they're the first states to fully recover the jobs lost in the pandemic. They won none of these high-profile big business projects, yet they won the competition for jobs.

This is not to say that Michigan's lawmakers ought to copy one or two states. Instead, they should study the data about economic prosperity and find out which policy lessons have been discovered. Economists have a lot to say, and one key lesson is that programs to lure in big companies don't work. Policymakers should look instead to broad-based improvements in the business climate and the state's quality of life. It's a less direct approach, but an effective one.

Yet the temptation to pursue headline-making announcements often proves too great. In the 1990s, for example, lawmakers added a large discretionary business subsidy program after General Motors set up an auto plant in Texas, even though company officials said the decision was about fundamentals not business subsidies. That program, the Michigan Economic Growth Authority, has been a failure, costing taxpayers hundreds of millions even today, without driving job creation in Michigan.

If lawmakers want to pick something up from the latest Ford news, they ought to listen to a point many companies have raised. Ford has complained about electricity prices in Michigan, and many other manufacturers have, too. Utility companies have been approved by state regulators to shut down power plants they've already been built and paid for and replace them with new and yet-to-be-paid-for wind turbines and solar facilities. Because those sources are weather-dependent, the utilities have to build much more capacity than what is replaced. This increases the price of energy and decreases its reliability. Lawmakers ought to take this to heart; it's something that affects a lot more people and companies than just Ford.

In other words, lawmakers ought to be focused on what matters across the board rather than overreact to big business headlines. Policy choices can make a difference, and lawmakers ought to look beyond one company that made a decision about a particular project that won't be replicated.

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