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Michigan Lawmakers Should Continue to Minimize Corporate Handouts

By Michael D. LaFaive

Summary

In 2020, Michigan lawmakers resisted the temptation to spend taxpayer money on corporate handouts. They should hold firm in 2021.

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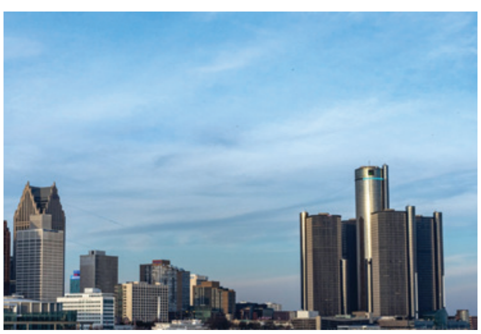
For the most part, Michigan lawmakers kept an expansion of the state's corporate handout complex at bay last year, and in 2021, they should trim taxpayer subsidies for corporations and industry. The money would be better spent addressing higher priorities.

In December, legislators rebuffed a second effort to authorize $300 million in new business subsidies for the so-called "Good Jobs for Michigan" program they allowed to expire in 2019. Some lawmakers wanted to resuscitate the program, but they saw those efforts stymied by skeptical lawmakers. That was a big holiday gift to taxpayers.

Spending taxpayer money to land big business was bound to be ineffectual. As I noted in 2019, less than 1% of the net increase in jobs in Michigan from 1990 to 2015 were the result of a corporate relocation, a common goal of subsidies. A program in Kansas operated much like Good Jobs for Michigan. A study of it found that companies that received incentives were no more likely to create jobs than like firms that had not.

Good Jobs for Michigan was created to lure Foxconn to build a manufacturing plant. The company chose Wisconsin instead, which turned out to be a win for Michigan. The incentive deal wrung from Wisconsin and the municipality Foxconn was to build in was worth more than $4 billion. By the end of 2020, officials said, Foxconn was to employ as many as 5,200 people — a figure that was supposed to grow to 13,000, according to The Verge, an online news magazine. But as it turns out, the company's building ended up being 1/20th of the promised size. In the account of The Verge, state and local units have already spent "$400 million, largely on land and infrastructure Foxconn will likely never need."



Spending taxpayer money on corporate handouts is wrong and doesn't work.

Michigan taxpayers, then, dodged a financial bullet when Foxconn didn't say "yes" to Michigan. Our public officials and taxpayers haven't always been so lucky, though. The state's failed film incentive program cost taxpayers nearly $500 million before it was mercifully put down. Bureau of Labor statistics indicate that there were just 78 more film jobs here in 2015, when the program ended, than when it began in 2008.

This hasn't stopped the film industry and its supporters from rallying to bring the idea back. The Mackinac Center has long argued that film incentive programs are ineffective, and there's no reason to think things are different now.

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An April 2020 study by the economist John Charles Bradbury titled, "Do Movie Production Incentives Generate Economic Development?" looked at film incentive programs across the country from 2000-2015. The answer was "no." Bradbury wrote that the evidence does "not support the hypothesized positive impacts of film incentives on state economies."

Film incentives are expensive, too. No independent study exists, of which this author is aware, showing that the new taxes generated from such programs exceed the amount spent on them.

Lastly, the state's Pure Michigan tourism subsidy program is back in the budget after a hiatus. The appropriation had been reduced to zero, but lawmakers and the governor eventually agreed on a $15 million appropriation for the current fiscal year. The good news is that this is down substantially from the 2019 appropriation of $36 million.

The bad news when it comes to corporate handouts is twofold. First, Pure Michigan is spending money on winter advertisements to encourage travel, even as the state's health department and governor, citing a pandemic, urge people not to travel. Second, even before COVID-19 arrived, Mackinac Center research demonstrated that Pure Michigan was not an effective economic development tool.

Despite the demonstrated failure, spending on the program continues, and some legislators are looking to spend more by raising taxes; one bill introduced last October would impose new taxes on short-term rentals. This one small component of the tourism industry would be asked to pay higher taxes to finance the purported benefits of Pure Michigan.

Whether the subject is Pure Michigan, film subsidies, or anything else offering special awards to select businesses, such programs should receive no state appropriations, and any savings should be directed toward higher budget priorities.

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Michael LaFaive is the senior director of the Morey Fiscal Policy Initiative at the Mackinac Center for Public Policy, a research and educational institute based in Midland, Michigan.

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Please contact:

Holly Wetzel
Communications Manager
989-698-1927
wetzel@mackinac.org

140 West Main Street
P.O. Box 568
Midland, Mich. 48640

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