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Summary: House Bill No. 5426 is identical legislation to SB 615, which repackages the “Good Jobs for Michigan” program by creating a new corporate welfare program that authorizes \$300 million in discretionary business subsidies to companies that meet specified state criteria. Michigan offers a number of selective business subsidy programs that receive annual appropriations. This new program would not require an annual budget authorization.

Highlights

Providing special favors and taxpayer cash to companies is an unsuccessful strategy for several reasons.

- They are ineffective at creating jobs — the economists who study the programs rarely find that they are worth the effort.¹ Per year, Michigan taxpayers offered, on average, nearly \$600,000 worth of incentives for every job created, according to a statistical analysis of state incentive programs, going back to 1983.²
- A large academic review of hundreds of studies found that “economic development incentives have little or no impact on firm location and investment decisions.”³
- It can be expensive to the state budget — the state treasury is expected to pay out more than \$500 million this year to companies that have been awarded selective subsidy deals.⁴
- It is unfair to the businesses that do not get them, and the companies that do not receive deals often pay their fair share of taxes.

Michigan should encourage job growth by improving the business climate and improving the quality of life in the state, not by subsidizing select companies.

Background/Problem:

HB 5426 and SB 615 repackage the “Good Jobs for Michigan” subsidy experiment, which expired in 2019, as the “Michigan Employment Opportunity Program.” The “Good Jobs” experiment was itself a repackaged version of the failed and deservedly defunct Michigan Economic Growth Authority (MEGA), which cost Michigan taxpayers billions with nothing, on balance, to show for it.^{5,6}

As with “Good Jobs,” the Michigan Employment Opportunity Program selects corporations believed worthy of taxpayer subsidies and, if eligible, send them checks from the state. These would amount to up to 100%

¹ See, for instance, a 2018 review of the economic development research (<https://www.mackinac.org/24377>), and an earlier meta-review of the literature (<https://www.mackinac.org/archives/2009/nr043009-petersfisher.pdf>).

² Economic Development? State Handouts and Jobs: A New Look at the Evidence (August 2020), <https://www.mackinac.org/S2020-05>.

³ The Failures of Economic Development Incentives (Winter 2004), <https://www.mackinac.org/archives/2009/nr043009-petersfisher.pdf>.

⁴ Michigan Strategic Fund 2021 Certificated Credit report,

https://www.michigan.gov/documents/treasury/Sec._94112_MEGA_and_Other_Certificated_Credits_2021_Annual_Report_743179_7.pdf

⁵ Good Jobs For Michigan is a repackaged MEGA (May 2017), <https://www.mackinac.org/legislature-considers-reopening-a-closed-business-subsidy-program>.

⁶ MEGA Mistake: Big Corporate Welfare Program Still a Waste (August 2020), <https://www.mackinac.org/mega-mistake-big-corporate-welfare-program-still-a-waste>.

of the personal income taxes paid by new hires depending on average wages, the number of jobs at the project and county size. Corporations can be eligible for 50% of the personal income taxes paid by new hires if they propose smaller projects that pay average regional wages. Income taxes would be captured in a special fund housed in the state treasury. The program is capped at \$300 million and contains a sunset provision for the end of 2026.

Data Shows Economic Development Programs are Unsuccessful

Unfortunately, this new Michigan Employment Opportunity Program is unlikely to improve Michigan's economic situation and will waste taxpayer dollars. **Research by economic experts across the country demonstrates that results from such programs on balance are not positive.**⁷ Michigan specific research has found that, per year, **Michigan taxpayers offered on average nearly \$600,000 worth of incentives for every job created.**⁸

The MEGA, on which the Good Jobs program and the proposed new program rest, was found to cost \$125,000 in incentives offered per job created per year.⁹ **A similar program in Kansas was equally ineffective.** An analysis of the Promoting Employment Across Kansas program, which is structured very similarly to the newly proposed Michigan program, found that businesses subsidized by this program were no more likely to create jobs than similar businesses that were not.¹⁰

Proponents of programs like those in SB 615 argue that, because the facilities receiving these deals would not have come to the state without the deals, these are not dollars that the state would have had otherwise – thus, lawmakers should ignore the costs. However, recent **research finds that deals are only effective at changing where projects are located in between 2% and 25% of deals.**¹¹ Additionally, these deals only account for a fraction of jobs created in a state at any given time.

Fiscal/Economic Impact:

The bill includes a cap that authorizes \$300 million in total funds to be collected and distributed to selected companies.¹² Administrators are authorized to approve 40 deals a year and may carry over unused authority to future years. Timing for payments will depend on when contracts with the state are signed and when they expire. The bill authorizes deals to be awarded until 2027, and companies may receive their payments for up to 10 years.

There is an **unknown economic impact on Main Street businesses**, which are already having major challenges filling the job vacancies. Company-specific incentives, like this, **can make labor costs more expensive for the Main Street businesses that don't get these benefits.**

Alternative Solution:

The objective of the legislation to create better-paying jobs and encourage business leaders to invest and grow is important, especially to recover from economic losses from the pandemic. But, **instead of handing out special deals to connected companies, lawmakers should improve the overall state business climate.** Policymakers should pass bill SB 768 to decrease the personal income tax rate and corporate income tax rate, respectively, which are established ways to improve the state's economic prospects. This strategy will make Michigan more competitive with and attractive to other states.

⁷ An Assessment of the Michigan Business Development Plan (February 2018), <https://www.mackinac.org/24377>.

⁸ Economic Development? State Handouts and Jobs: A New Look at the Evidence (August 2020), <https://www.mackinac.org/S2020-05>.

⁹ Ibid.

¹⁰ Corporate Handouts: Lansing Politicians Should Care About the Science (August 2021), <https://www.mackinac.org/corporate-handouts-lansing-politicians-should-care-about-the-science>.

¹¹ Timothy Bartik, (July 2018) "Incentive: What percentage estimates are plausible based on the research literature?" https://research.upjohn.org/up_workingpapers/289/

¹² The fund shall not approve more than 10 agreements each year in tier 1 counties that total more than \$125,000,000.00, 15 agreements each year in tier 2 counties that total more than \$100,000,000.00, or 15 written agreements each year for authorized businesses in tier 3 counties that total more than \$75,000,000.00.