

Testimony on House Bills 5602, 5603, and 5604

House Government Operations Committee

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Chairman Mueller and members of the committee:

My name is James Hohman. I am the director of fiscal policy at the Mackinac Center for Public Policy, a 501(c)(3), free-market research institute based in Midland. Thank you for the opportunity to discuss House Bills 5602 through 5604 today.

The Mackinac Center continues to oppose company-specific incentives and not merely as a matter of free-market principles. Decades of research from economic experts across the country has found that company-specific economic development subsidies fail to generate economic growth, are unfair to the businesses that do not receive them, and generate high costs. Our own research has found that, per year, Michigan taxpayers offered on average nearly \$600,000 worth of incentives for every job created and that four of the nine programs the state of Michigan had produced a net negative return on investment.¹

While providing special favors and taxpayer cash to select companies is an unsuccessful strategy, this package avoids some problems raised in previous programs. We are encouraged to see this legislature inject more accountability into these bills by requiring authorization through the appropriations process. Spending taxpayer dollars on selected companies should require scrutiny by the branch responsible for budgeting. Additionally, this legislation's reporting requirements ensure comparability between the state's different programs.

Because annual reports tend to be dated, there is an opportunity to improve the transparency of these bills. We suggest a requirement for administrators to regularly update and maintain a database of projects. This concept isn't entirely new as the MEDC tends to have this for each program already, but only for what has been offered and not the current status of each project. The database should include information like claimed jobs at the project, payments made by the state, if any, and any other outcome put into a contract. For instance, the most recent statement about the status of the publicized Pfizer plant that received a Good Jobs for Michigan deal is for September 2020, 14 months ago.

¹ LaFaive, Hicks, and Devaraj, "Economic Development? State Handouts and Jobs: A New Look at the Evidence in Michigan," August 2020, <https://www.mackinac.org/S2020-05>.



Efforts like this bill package to support a small number of firms with taxpayer cash demonstrate that improvements should be made to the overall state business climate. We look forward to continuing this discussion to help make Michigan a welcoming place for entrepreneurs and businesses of all sizes.

The package does not explicitly authorize appropriations, and legislators have billions in federal transfers and extra state proceeds at their disposal that can be used for selective business subsidies. Yet, there are better uses for the extra cash, such as bolstering unemployment insurance funds to prevent automatic payroll tax increases that discourage job growth at a time when our state's employment recovery has stalled.

Thank you, and I welcome any questions.