Texas Public Policy Foundation

Government Reform

Legislator's Guide to the Issues 2017-18

Corporate Welfare

The Issue

Corporate welfare is when the government favors certain businesses in the form of direct subsidies, tax credits, or favorable regulatory schemes. Sometimes this practice is referred to as "economic development." This label creates a dangerous misconception about corporate welfare, which is known to hinder, if not reverse, economic growth.

Corporate welfare is abundant in Texas, and so are its negative economic effects. Direct subsidies are paid to politically adept corporations through the Texas Enterprise Fund, the Texas Emissions Reduction Plan, and the Texas Film Commission. The Property Tax Abatement Act and the Texas Economic Development Act give preferential tax treatments to corporations through tax abatements and credits. Other forms of special treatment include grants, loans, sales tax funds, and even regulatory privileges; biased policies such as those relating to title insurance regulation and condemnation compensation are buried in Texas' legal framework.

Corporate welfare is economically harmful for a number of reasons. It attempts to grow the economy through monetary handouts, but it takes money from taxpayers in order to do so. Because corporate welfare disrupts natural market processes, it shifts money from productive hands into those which are less productive and more politically connected. This method creates inefficiency in the economy and stunts competition. Unconnected businesses struggle to compete with the welfare recipients, and they are unable to reap the just rewards of their merit. Additionally, corporate welfare undermines consumer choice: it overturns the decisions of millions of Texans, and redirects the outcomes in the marketplace through subsidies and regulations. Finally, corporate welfare fails to achieve its stated goal. It cannot compete with the free-market approach in terms of economic growth.

Despite its challenges with corporate welfare, Texas has generally had a more free-market approach to economic development than other states. Sometimes referred to as the Texas Model, the approach is really simple: lower taxes, less regulation, fewer frivolous lawsuits, and reduced reliance on the federal government. It's also very successful. The results speak for themselves, with Texas leading the nation in just about every economic category. Since the beginning of the Great Recession, Texas has added 1.3 million jobs, far more than any other state and 39% of all non-farm U.S. jobs created during that time. Texas has also become the nation's top exporting state. Its $289 billion in exports in 2014 accounted for more than 17% of the U.S. total. And Texas' poverty rate is second lowest among the 12 largest states. Texas' free-market approach works.

Corporate welfare turns profit seekers into rent seekers and businesses' market-oriented focus on consumer satisfaction into a government-oriented focus on corporate welfare. Creating a conflict of interest between businesses and consumers does not benefit the economy.

The Facts

- In Texas corporate welfare spending totals more than $2 billion annually.
- Texas ranks 37th in the nation in per capita spending on state economic development spending, much of this at the local level.
- States that spend a lot on economic develop programs tend to have lower job growth, lower income growth, and lower population growth.
- Four of the top five states in overall spending are also in the top five when it comes to economic development spending.

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Recommendations

- Establish a select or joint committee, or adopt an interim charge, to examine the effectiveness and costs of the Property Tax Abatement Act (Chap. 312) and the Texas Economic Development Act (Chap. 313) in advance of the September 1, 2019 sunset date for Chap. 312.
- Repeal existing exceptions to transparency laws for economic development located in sections 551.087 (Open Meetings) and 552.131 (Public Information) of the Government Code.
- Reduce direct and indirect economic development programs and use the savings from the direct programs to repeal the margin tax.
- Eliminate or modify regulatory regimes and agencies designed to benefit specific industries or workers at the expense of most Texas consumers, workers, and businesses and increase freedom to work:
  - introduce competition into the title insurance market,
  - reduce excessive occupational licensing, including scope of practice issues in health care,
  - adopt paycheck protection and ensure secret ballots in union elections, and
  - reduce local economic regulation of the economy by removing excessive restrictions on the sharing economy and requiring voter approval for annexation.
- Reduce taxes and spending:
  - adopt a Conservative Texas Budget for 2018-19 that increases spending by less than population growth plus inflation,
  - eliminate the margins tax, and
  - require local government entities to get voter approval for increasing property tax revenue more than 4% or population growth plus inflation, whichever is less.

Resources

Liberty or Economic Growth? Texas Can Have Both if We Rely on the Free Market by Bill Peacock, Texas Public Policy Foundation (April 2016).

"Rivalry Helps Drive Florida and Texas to Economic Success" by Bill Peacock, *Orlando Sentinel* (May 24, 2016).

Economic Development–Texas Style by Bill Peacock, Texas Public Policy Foundation (March 2010).

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901 Congress Avenue, Austin, Texas 78701 | 512.472.2700 PH 512.472.2728 FAX | www.TexasPolicy.com