2019-20 LEGISLATOR'S GUIDE to the Issues

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 damaging misconception about corporate welfare, which leads to economic contraction rather than expansion.

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. 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 providing cash and other benefits to businesses, but in the process it takes money from taxpayers and consumers in order to fund the handouts. Because corporate welfare disrupts natural market processes, it shifts money from the most productive economic actors to those less productive but politically connected. This method creates economic inefficiency and stunts competition.

Unconnected businesses struggle to compete with recipients of handouts, 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. Because of these economic costs, corporate welfare fails to achieve its stated goal of creating 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 simple: lower taxes, less regulation, fewer frivolous lawsuits, and reduced reliance on the federal government. It is also very successful. The results speak for themselves, with Texas leading the nation in just about every economic category over time.

However, corporate welfare turns profit seekers into rent seekers, and businesses' market-oriented focus on consumer satisfaction into a government-oriented focus on handouts and special privileges. Creating a conflict of interest between businesses and consumers does not benefit the economy. The Texas Model, on the other hand, aligns these interests and creates a win-win situation for all participants.

The Facts

- In Texas, corporate welfare spending totals more than $2 billion annually.
- In a study of 32 states plus the District of Columbia, Texas ranked 17th in 2015 for the value of incentives as a percentage of state private industry value-added, and 19th as a percentage of gross taxes collected.
- States that spend less tend to have better economic performance.

Recommendations

- Allow the Property Tax Abatement Act (Chap. 312) and the Texas Economic Development Act (Chap. 313) to expire.
- 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 cut taxes for all Texans.
- 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;
  - Eliminate laws that protect some industry actors from true competition, such as in the three-tier system of alcohol distribution, and harm customers and businesses that are less politically connected; and
  - Reduce local economic regulation of the economy by removing excessive restrictions on the sharing economy and requiring voter approval for annexation anywhere in Texas.
- Reduce taxes and spending:
  - Adopt a Conservative Texas Budget for 2020-21 that increases spending by less than population growth plus inflation;
  - Eliminate the business margins tax and school M&O property taxes; and
  - Require local government entities to get voter approval for increasing property tax revenue more than 2.5% 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).

continued

"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).

"Greg Abbott says if Texas were a country, its economy would rank 10th in world" by W. Gardner Selby, Politifact Texas (Sept. 15, 2016).

A New Panel Database on Business Incentives for Economic Development Offered by State and Local Governments in the United States by Timothy J. Bartik, W.E. Upjohn Institute for Employment Research (2017).

Rich States, Poor States, 9th Edition, by Arthur B. Laffer, Stephen Moore, Jonathan Williams, American Legislative Exchange Council (2016).