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Hoppy's Commentary for Wednesday

Talkine Host Hoppy Kercheval

Government faces a conundrum: how does it create jobs without trying to pick economic winners and losers?

At minimum, the public expects government to set the framework for job creation, but in some cases, the expectation is that government should recruit and incentivize individual businesses.

However, when the government gets that deeply involved in economic recruitment, does it show favoritism of one business over other? Additionally, how does the public know whether state investments are paying benefits?

The West Virginia Center on Budget and Public Policy posed these questions in its recent report, “Money for nothing: Do business subsidies create jobs or leave workers in dire straits?”

The report looked at three of the most common government subsidies: the Economic Opportunity Tax Credit, the Manufacturing Investment Tax Credit and the West Virginia Economic Development Authority’s low-interest loans.

It concluded that there is a dearth of information about the success (or failure) of the individual loans and credits, while specifics about the actual number of jobs created “is published belatedly or not at all.”

For example, the report says, the state tax department releases outcome data once every three years on the various credit programs, but does not list specific companies. That makes it difficult to determine whether a taxpayer subsidized benefit to a particular company worked or not.

So how are public policy makers, who have the ultimate responsibility for creating and funding--or defunding--supposed job creation programs, to know the return on the investment?

The Center on Budget and Policy concludes that the problems are easily correctable through improved transparency and specific job creation reporting.

Well, maybe.

Cost/benefit analysis is rarely a strong suit of government, but if tax dollars are going to be used to help a company compete in the private sector, the investors—in this case the taxpayers—should be able to evaluate the success of the expenditure.

Still, even when politicians know the risk-reward does not favor the investment, they are still tempted to spin the wheel using tax dollars in hopes of hitting the jackpot.

The Center’s report raises valid points that warrant serious consideration, but it stops short of asking the ultimate question: if West Virginia must offer myriad tax credits, loans and subsidies to encourage business development, doesn’t that suggest there are fundamental problems with the state’s business tax structure?

Ideally, if businesses were taxed fairly they would not have to come to Charleston, hat in hand, to ask for a tax benefit. Or, in the case of some large businesses, the state would not have to kowtow to their requests in hopes of promoting economic prosperity, especially when similar businesses do not get the same benefit.

When government picks out specific businesses for public subsidies, politicians are quick to sell the expected benefits and everyone is all smiles at the ribbon cutting. And, in fairness, sometimes

these ventures are successful.

We always hear about them, and they serve as examples of how government—or a particular administration—has created jobs. The failures, however, are relegated to obscurity, along with the lessons we could learn from them.

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