TEXAS PUBLIC POLICY FOUNDATION
Testimony

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*Center for Economic Freedom*

# Texas Model of Limited Government is the Best Business Incentive

## *Testimony before the Texas House Committee on Economic and Small Business Development on HB 108*

by Carine Martinez-Gouhier

Chairwoman Button and Members of the Committee,

My name is Carine Martinez-Gouhier. I am managing editor and research analyst at the Texas Public Policy Foundation, a nonprofit, nonpartisan, free market think tank based in Austin, Texas. Thank you for the opportunity to speak today in opposition to HB 108, which would create a new business incentive program within the Texas Workforce Commission (TWC) similar to the Skills Development program.

When a business decides to relocate to or expand its operations in a new community, several factors come into play, which generally include the cost of doing business in the community considered, the proximity of resources or services necessary to the business to operate, the proximity of customers, and the availability of a qualified workforce in the area.

Qualifications and training are important for both employees and employers. Developing new skills allows workers to competitively sell their man power in the workplace. It is also in a business's best interest to have a well-trained workforce to successfully compete in the marketplace. This is why many employers offer professional training to their employees. In fact, for businesses, training is an investment. Businesses that decide to spend resources—time and money—in training programs do so because they expect a return on their investment. They alone can assess the pertinence of, and they should bear the responsibility and risks inherent to, such a choice.

The program that HB 108 proposes to create—Recruit Texas—would allow junior colleges and technical institutes to receive money from the Workforce Commission in order to "provide workforce training and related support services to employers who commit to establishing a place of business in the state." This would include "customized workforce training programs for an employer's specific business needs."

The program is similar to the Skills Development program, which encourages individual businesses, business consortia, and trade unions with specific training needs to partner with a public community or technical college, the Texas A&M Engineering Service (TEEX), or a community-based organization to assess their training needs, build a fully customized training plan for existing or soon-to-be-hired employees, and apply for a grant. If the application is approved, the TWC authorizes a grant to the partner educational institution to fund the training program.

In 2015 alone, the program funded 47 out of 54 applications, supporting 67 businesses, with an average award of $450,315 to train a total of 3,664 newly hired employees and 9,431 employees in existing jobs. Micro employers (1 to 20 employees) received 0.1 percent of the total amount of funds awarded, small employers (21 to 99 employees) received 3.5 percent, medium employers (100 to 499 employees) received 9 percent, and large employers (500 and more employees) received 87.4 percent of the funds awarded.

A 2014 Comptroller report on manufacturing development in Texas, required by HB 2482, passed in the 83rd Legislature, found that manufacturing companies were aware of the program: 47.2 percent of economic development professionals and community leaders surveyed identified the Skills Development Fund as part of typical economic development packages for manufacturing businesses. The report also points out that "economic incentives . . . are one factor considered in the 'basket of goods,' but they are not always the *determining* factor" for manufacturing companies.

This kind of programs, although created with the good intent of attracting businesses, creating jobs, and helping workers earn better wages, first and foremost creates winners and losers. As the numbers above demonstrate, large businesses—nearly 90 percent of the businesses that benefited from the program—are clearly the winners.

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The program created by HB 108 would add to the government's range of options to pick winners and losers, allowing it to transfer taxpayer money to just a few select businesses. Transfer of wealth is not the Texas success story—in fact, it has never been successful anywhere. The Texas Model has demonstrated that it was creating the right incentives for businesses to invest in the Lone Star State: low spending per capita, low taxes, low regulation. Indeed, states that spend less leaving taxpayers—individuals and businesses alike—with more of their hard-earned money to invest as they see fit are the ones with the strongest economic growth.

### Economic Performance v. Spending Comparison—12 Largest States

| State | Economic Performance | Per capita Spending | Eco Devo Spending Rank | Adjusted Poverty Rank |
|---|---|---|---|---|
| Texas | 1 | $4,098 | 15 | 17 |
| North Carolina | 8 | $4,417 | 12 | 28 |
| Georgia | 17 | $4,258 | 5 | 45 |
| Florida | 18 | $3,724 | 20 | 49 |
| Virginia | 19 | $5,483 | 2 | 12 |
| Top 20 Avg | | $4,396 | 11 | 30 |
| Bottom 25 Avg | | $5,934 | 20 | 36 |
| New York | 26 | $7,091 | 30 | 46 |
| California | 31 | $6,452 | 11 | 50 |
| Pennsylvania | 38 | $5,688 | 15 | 24 |
| Illinois | 46 | $5,397 | 19 | 30 |
| New Jersey | 47 | $6,095 | 27 | 37 |
| Ohio | 49 | $5,389 | 13 | 36 |
| Michigan | 50 | $5,429 | 21 | 31 |

Source: Economic Performance Rankings: *Rich States Poor States*; Per Capita Spending: Ballotpedia; Economic Spending: W.E. Upjohn Institute for Employment Research; Poverty Rank: Texas Public Policy Foundation

Taxpayers should not be forced to shoulder the cost of private businesses' training investments with some businesses cashing in on the rewards while non-subsidized businesses are left with the unfair disadvantage of having to subsidize their competitors' training needs, sometimes leaving no room to fund their own. This is why creating one additional taxpayer-funded, business incentive program is a step in the wrong direction for Texas.

Thank you for your time. I look forward to answering your questions.

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