

LIVINGSTON COUNTY DAILY

PRESS & ARGUS

State of the State: Granholm's R&D plan would incur more debt

Times are tough. Your household finances are in a crunch. Family income has dipped, but the bills keep piling up. Suddenly, you have a great idea and excitedly begin explaining it to your spouse.

"We'll take out a big loan and invest it in research and development stocks, exactly what I don't know, but surely that will generate enough financial activity that it will get us out of these doldrums," you say.

Your significant other would be perfectly justified in tying you to a chair, breaking out the personal finance manuals, and explaining to you - loudly - how you can't borrow your way out of debt.

If it is not a good idea for household finances, why is it any better of an idea for the state government to use the same scheme? It wouldn't be.

Yet that is exactly what Gov. Jennifer Granholm proposed in her recent State of the State address with the "21st Century Jobs Initiative." She wants voters to approve a \$2 billion bond issue to "build the best laboratories and bring and grow the best scientists and researchers in Michigan," "create new sources of startup funding to make sure the new businesses and entrepreneurs of tomorrow take root in Michigan today," and "turn those groundbreaking ideas into world-beating products, spinning off jobs."

In her speech, Granholm promised the idea would "create 72,000 new jobs by making our state a worldwide center of research and innovation."

She wants another \$800 million to speed up infrastructure improvements that she said will create 36,000 more jobs.

Because it would all be done with bond money - the government equivalent of taking a loan - she said it would be accomplished "without raising taxes." Somebody has to make the payments, and unless you can put scientific discovery and technological

advancement on a strict timetable, the cost is going to fall to taxpayers.

Research and development don't work well on a deadline. Back in 2002, then-Gov. John Engler said fuel cells would be the wave the auto industry future and that development of such technology would save Michigan jobs. He may well yet turn out to have been right, but have you seen any fuel cell-driven cars on the road?

If repayment of Granholm's 30-year jobs bond were set up like a 4 percent home mortgage, the cost would be pricey, according to an analysis done by Jack McHugh of the Mackinac Center for Public Policy. Debt payments would come to \$160.4 million annually. That is a big expense to add into an already strained state budget. Interest costs over the 30-year life of the bond would come to \$2.01 billion.

The overall cost of repayment, principal and interest, of \$4.81 billion would work out to a cost of about \$481 for every man, woman and child in the state.

McHugh points out that government has a very poor track record for picking what research and development will actually do well in the marketplace. When private investors put money into speculative ventures, they tend to be more careful and selective, because after all it is their own money at risk. Such ventures often go bust anyway.

The state has given tax breaks and incentives to many innovative firms that have gone belly-up before producing profit.

There is no reason to believe anything will be different this time around, McHugh said, no reason to think the state will get better at picking winners in business competition.

The only difference this time, is that Granholm's plan would incur substantial new debt.