

## MACKINAC CENTER: M.E.G.A. HAS FAILED

One of the state's keystone programs for economic development has failed to achieve the results it has claimed, a study by the Mackinac Center for Public Policy says. And while the conservative think tank said the best idea would be to eliminate the Michigan Economic Growth Authority altogether, it proposed a number of other changes if it is to stay in operation.

The Mackinac Center has long opposed MEGA since its creation in 1995 but center officials said they conducted a thorough analysis of the program using state-supplied documents and had the study peer-reviewed for its overall analysis to ensure its conclusions fit the data. Officials said they tried in the strongest way possible to present the findings neutrally and objectively.

Paul Krepps of the Michigan Economic Development Corporation said the best response to the report was that Toyota had said on Tuesday without a MEGA grant it would locate a major project in another state. Governor Jennifer Granholm was in Ann Arbor announcing the project on Tuesday.

The state has also been one of the more successful states in attracting companies, according to Site Selection Magazine, since MEGA was created.

The study was released in anticipation of MEGA's 10th Anniversary on April 18. According to the study, all of the MEGA grants offered by the state in that time were anticipated to create as many 35,821 in direct jobs. But the study said that MEGA had succeeded in creating just over one-third of the jobs claimed, a total of 13,541.

Michael LaFaive, one of the authors of the study, said if MEGA had never been created the effect on the state would have been negligible.

And if lawmakers could have seen that in 10 years the state's economic performance would still be so poor - it had the worst

unemployment figures in the nation in February according to the federal figures - Mr. LaFaive questioned whether they would have voted for the MEGA proposal.

MEGA was created under former Governor John Engler to offer Single Business Tax credits and has been expanded from its original limited origin to focus on companies creating new jobs in manufacturing, office operations and research and development to include grants for high tech industries and grants to retain companies.

Some of Michigan's biggest companies, including General Motors Corporation and Ford Motor Company, have gotten MEGA grants. Most recently, the state prepared a MEGA offer for a Toyota technology center in Washtenaw County (see separate story).

In its first year of operation, there were 15 MEGA grants issued, totaling credits of \$89.9 million. By 2004, 41 grants were issued, totaling \$253.3 million.

The track record of the companies that have received the grants has been mixed, including some that have gone into bankruptcy.

And the jobs created by the grants were supposed to be of two kinds: direct, those created by the company receiving the grant, and indirect, those created by the spinoff effects of the direct jobs.

If all the grants created by the MEGA grants had come to fruition, then 35,821 direct jobs should have been created. But fewer than half the companies that received the grants actually used them, and those companies created 13,541 direct jobs, the study said.

In addition, the state has said there have been some 28,812 indirect jobs created by the grants.

But - without themselves putting a number to it - the Mackinac Center said the estimate is "unreliable" because it:

- Uses a constant instead of varying formula for MEGA's diverse projects
- Makes assumptions about future economic years
- "Implicitly counts indirect jobs that would be created only after 2005 in its indirect job estimates for the past 10 years, thereby overstating the numbers"
- Fails to correct earlier overoptimistic estimates

In reaching its conclusions, the Mackinac Center said, "MEGA did not improve Michigan's per-capita personal income, employment or unemployment rate." The program temporarily created a shift to higher-wage construction jobs, which the study said all vanished two years after work on a project began.

In fact, the study said, counties in Michigan that had no MEGA projects fared about as well over the last 10 years as those with the projects.

And in an interview, Mr. LaFaive said most companies cannot get a MEGA grant because they do not meet the MEGA criteria.

The Mackinac Center said MEGA's failure could be partly explained by political incentives to get public approval of the program.

Aside from simply eliminating MEGA, the Mackinac Center did propose other reforms such as requiring audits, changing the way the system counts jobs, developing greater transparency on following successes and failures and creating an independent econometric review of the system.

Mr. Krepps said the organization's criticism was in keeping with its long-term opposition to MEGA. "Michigan tried to disarm economically unilaterally before and with disastrous results," he said.