



Picking Winners and Losers with Tax Credits is Unnecessary and Unfair

by Michael LaFaive

Summary

Michigan's booming economy does not owe its success to MEGA, the state agency that selectively gives tax credits and other incentives to companies that promise to create jobs in Michigan. The legislature should eliminate MEGA and instead enact more across-the-board tax cuts, which truly and fairly encourage job creation.

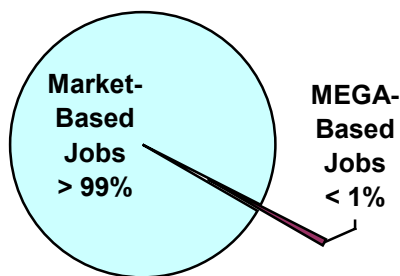
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In 1995 the state created the Michigan Economic Growth Authority (MEGA), an agency empowered to issue tax credits and other incentives to companies that promise to expand in Michigan or relocate here from another state. After more than four years of operation, the evidence suggests that Michigan is enjoying economic development in spite of MEGA assistance, not because of it.

No company should be blamed for accepting a tax credit when it is offered, and no individual should be faulted for taking a credit on his personal income tax form. But what makes these selective MEGA credits problematic is that they are both unnecessary and unfair. Businesses—and the economy generally—would be better off with “a fair field and no favor,” a climate of lower tax burdens for all and discriminatory treatment for none.

First, MEGA is unnecessary. The Engler administration states that MEGA was created to compete against other states that offer attractive tax deals in an attempt to lure away Michigan jobs. Since its inception, MEGA has extended tax credits and other incentives to 63 companies. The value of these incentives exceeds \$744 million.

MEGA's Miniscule Jobs Impact



Sources: Michigan Economic Development Corporation, Michigan Department of Career Development. Data 1995-99.

MEGA politicizes job creation in Michigan, all in an attempt to add just the tiniest sliver to the state's employment base.

Site Selection magazine ranked Michigan as the number one state for new and expanded corporate facilities in 1997 and 1998 with 1,285 and 1,722, respectively. Only 29 firms involved in these 3,007 projects acknowledged that their decision to locate or expand in Michigan was related to MEGA incentives. Those 29 firms are required by law to acknowledge MEGA's role in their decision, or they cannot receive the tax credits.

Statewide, an estimated 338,000 new jobs have been created in the four years since MEGA began. According to documents obtained by the Mackinac Center, fewer than 2,500 can be directly attributed to MEGA. That is a tiny 0.7 percent of the total jobs created since 1995. Even these job claims may be inflated because MEGA officials cannot prove that the companies involved would not have expanded or moved to Michigan

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without MEGA assistance.

The fact is that Michigan's job-creation environment is improving even if MEGA's claimed benefits are not considered—largely due to eight years of the Engler administration's across-the-board reductions in taxes and regulatory burdens. The Governor's commendable plan to phase out the Single Business Tax will enhance job creation even more.

Second, MEGA is unfair. Most of the firms chosen by the politically appointed MEGA board to receive tax credits have in-state competitors that do not receive tax credits or other special treatment. Lacks Industries, Inc. of Grand Rapids is one example.

Lacks produces automotive plastic molding and plating. In 1996, the company was awarded \$8,625,000 in MEGA tax credits, abatements, and "workforce development" money. That translates to \$43,125 per job the firm is supposed to directly create.

As part of its application, Lacks submitted to MEGA a "Confidentiality Form" listing five reasons to keep certain data secret from the public. Three reasons noted that making public certain data would give ". . . [an] unfair advantage to our competitors." But MEGA credits themselves give unfair advantages to the firms chosen to get them.

There are currently 1,395 companies in the state with whom Lacks shares Standard Industrial Classification (SIC) codes. SIC codes, vital to MEGA's computer-driven job forecasts, classify businesses by industry and economic activity. Businesses within the same SIC code produce similar if not identical products and also compete with one another to attract workers.

This means that 1,389 Michigan businesses in the plastic products industry are forced to compete against Lacks and five other firms that receive special tax favors. Also, since Lacks received its MEGA credits, approximately 194 businesses in the same SIC code have either started up or moved to Michigan, all without help from MEGA. So, while state government is busy picking winners and losers, the vast majority of firms are working to win on their own.

Michigan has created jobs and attracted firms at a blistering pace for the past four years and MEGA is not the reason why. A better explanation is the state's 25 tax cuts totaling \$11 billion over the past eight-plus years, combined with regulatory relief and a healthy national economy.

The MEGA program is unnecessary and unfair. It is time to make it part of Michigan's history, not its future.

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(Michael LaFaive is a policy analyst with the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Michigan. More information on economic development is available at www.mackinac.org. Permission to reprint in whole or in part is hereby granted, provided that the author and his affiliation are cited.)

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Joseph G. Lehman
Vice President of Communications
140 West Main Street
P.O. Box 568
Midland, MI 48640

Phone: (517) 631-0900
Fax: (517) 631-0964

www.mackinac.org
Lehman@mackinac.org