



American Greetings Says Hello to More Incentives

By Michael D. LaFaive

Summary

Policymakers are quick to issue press releases about how many jobs will be created when they give discriminatory favors to certain businesses. Where are the press releases when those predictions fall short?

Main Text Word Count: 733

Last summer, American Greetings Corp. revealed it was considering the possibility of consolidating the operations of its plants in Kalamazoo and Greenville, Tenn. The announcement generated a mixture of anxiety and excitement in both locations at the prospect of either losing or gaining hundreds of jobs. However, on Oct. 1 the company announced that neither plant would close. What explains this seeming change of heart?

Consider for a moment the almost reflexive response of local and state officials to the threat of plant closings or the potential for new job providers: They offer special tax breaks and perhaps even outright subsidies.

Consider also that corporate managers aren't idiots; they can predict this Pavlovian response as well as anyone.

Given the way these events transpired, a cynic might question whether American Greetings announced its plans to consolidate with hopes of achieving just this outcome.

If so, the executives who devised the plan should get a bonus. Predictably, both Michigan and Tennessee eagerly assembled generous special incentive packages and aren't ashamed to admit it. A spokesperson for American Greetings told this author that "the contents of the proposals are fairly detailed and American Greetings is currently working with appropriate officials in each location on these offers."

American Greetings is an old hand at this game (which it didn't invent and shouldn't necessarily be blamed for playing). In January 2000, a press release from Michigan's favor-granting bureaucracy boasted how the firm would expand its Kalamazoo facility as a result of Michigan Economic Growth Authority tax breaks. It quoted Barry Broome of "Southwest Michigan First" saying, "The MEGA program has brought the kind of leadership and decisive action that will make SMF and the Kalamazoo area a hotbed for job creation."

The package assembled then under MEGA auspices granted American Greetings more than \$2.4 million in Single Business Tax credits, \$400,000 in job training subsidies and nearly \$2.5 million in local property tax abatements. The SBT credits were promised through 2010 and the abatements for six to 12 years. In return, by 2002 the state was



"DROP OUR BUSINESS INCENTIVE PROGRAMS?! BUT THAT WOULD BE UNILATERAL DISARMAMENT!"

supposed to get 200 new jobs created directly by the company and 144 additional “spin-off” jobs by 2010 as a result of the expansion.

Michigan Economic Development Corporation documents obtained by the Mackinac Center indicate that American Greetings averaged only 85 new jobs for tax year 2002 and the year-end figure was a mere 60, far short of the 200 promised. Total tax credits earned for tax year 2002 were valued at \$346,560. It appears from the same data that after 2002 the company neither requested nor received job creation credits, suggesting that it had failed to meet certain stipulations of the MEGA agreement. (The summary document produced by the state to track MEGA credits awarded and jobs created was discontinued in April. The Center has made numerous attempts to acquire its replacement but has been told repeatedly that it remains a work in progress.)

This is not uncommon. An exhaustive analysis (www.mackinac.org/7096) of the MEGA program that I performed with my colleague Michael Hicks in 2005 found that from 1995 through 2004, 127 MEGA deals should have produced fully employed facilities. Only about 56 of those had claimed credits, suggesting that most MEGA firms had not met their job promises. Of the 56 companies that met this threshold only 10 showed they had created the number of jobs promised in the time frame promised.

A peer-reviewed statistical model in this study measured MEGA’s true economic influence based on actual empirical evidence — not puffy press releases. After other factors were accounted for, the program could not be shown to have improved Michigan’s per-capita personal income, employment or the unemployment rate.

If benefits to Michigan’s economy matter first, then legislators should promptly kill the MEGA program and replace it with a broad-based overhaul of the state’s tax, labor law and regulatory climates. Short of that, they might at least consider Senate Bill 1541, introduced by Sen. Nancy Cassis to make MEGA’s performance more transparent.

Real transparency would require MEDC bureaucrats to issue a press release every time a MEGA “winner” fails to produce the jobs they said it would. Such sunshine would strip away most of the value politicians derive from these discriminatory tax favor programs. The endless, self-aggrandizing press releases boasting of their job-creating prowess would be shown for what they are: empty political puffery, not serious and effective public policy.

#####

Michael D. LaFaive is director of the Morey Fiscal Policy Initiative at the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Mich. Permission to reprint in whole or in part is hereby granted, provided that the author and the Center are properly cited.

Real transparency would require MEDC bureaucrats to issue a press release every time a MEGA “winner” fails to produce the jobs they said it would.

**Attention
Editors and Producers**

Viewpoint commentaries are provided for reprint in newspapers and other publications. Authors are available for print or broadcast interviews. Electronic text is available at www.mackinac.org. Please contact:

Michael D. Jahr
Director of Communications
140 West Main Street
P.O. Box 568
Midland, Mich. 48640

Phone: 989-631-0900
Fax: 989-631-0964
www.mackinac.org
Jahr@mackinac.org