



Film Incentive Drama May Upset Reforms

By Michael LaFaive

Summary

Michigan's film subsidy program should be scaled back, if not eliminated, as part of Gov. Snyder's budget reform plans.

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A “jobs” program known as the Michigan Film Incentive is scheduled to be reformed under Gov. Rick Snyder's first budget proposal. The program — which reimburses 42 percent of a film production's costs and 25 percent of infrastructure investment — is scheduled to be converted to a smaller grant-based program with a maximum expenditure of \$25 million.

This has proponents of this industrial-corporate welfare program up in arms and their opposition may very well imperil Gov. Snyder's attempts to reform the rest of the tax code. The best solution is to eliminate the program in its entirety. It is expensive and doesn't work, despite claims to the contrary, and has been associated with felony fraud charges against individuals allegedly seeking to scam the system.

Hard on the heels of a \$1.4 billion tax hike imposed on Michigan taxpayers, the Granholm administration and Michigan Legislature created the film subsidy program in 2008. It was sold as a way to create jobs and “diversify” the state's economy. Film productions would receive cash back for up to 42 percent of a production's costs and “infrastructure” (studio) investments could receive an assignable credit for up to 25 percent.

The program was initially a public relations boon to the politicians who supported it. In a Michigan economy reeling from years of bad economic news, legislators wanted to be seen as favoring jobs, even if the net result was no or negative economic impact. And the film incentive delivered the PR with countless media stories about celebrities — like Rob Schneider, for instance — being seen in some Detroit coffee shop or Ann Arbor hotel.

But the fundamental flaw of the program is that it robs taxpayer Peter to pay filmmaker Paul. Through December 2010, more than \$361 million has been pledged from Michigan taxpayers to filmmakers. Taking resources from the many and giving it to a few is unlikely to create net new jobs. That is why studies that include the net costs of these programs are unlikely to show economic gains.

This suggests one possible reason the state bureaucracy that administers this program has not only worked to stymie Mackinac Center and others' research into the program in the past, they have underreported the true cost of it. They also paid for an analysis by Michigan State University economists that claimed the film incentive program was a “big hit,” despite

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only measuring the economic impact of spending, while ignoring 100 percent of the program's costs.

Proponents of the film subsidies are also working hard to pressure lawmakers and the governor to keep the program alive by holding rallies, building a support website, and distributing prepared "talking points" to use in letters to the editor or in discussions with state legislators.

Talking points are pithy lines typically prepared in advance of media interviews or debates to persuade listeners. The West Michigan Film and Video Alliance distributed talking points last September to its followers with such arguments as "Numbers are important, but there is so much benefit from this program that it is difficult to quantify."

It is worth noting here that proponents are happy to use hard data when they think it will support their case. Moving the debate from objective to subjective standards advances their cause and distracts from embarrassing revelations about film subsidy incompetence and even corruption. In Kent County, two men have been charged with fraud for attempting to obtain a \$10 million assignable (sellable) tax credit for a movie studio "investment" that apparently did not occur. This is precisely what can happen when the state rings the subsidy dinner bell and yells "come and get it."

Unfortunately, all of this pressure on lawmakers to keep one subsidy program could unravel all of the other sound policy decisions of the Snyder administration. The governor is on the cusp of making a revolutionary and generally positive change to Michigan's tax landscape by eliminating the vast majority of tax favoritism in our code — including the failed Michigan Economic Growth Authority tax credit program.

Once one special interest group gets its way, it effectively opens the door for a cascading "me too" effect where every other group on taxpayer life support demands that their favors escape reform, too.

Michigan taxpayers should not let this happen. While the Snyder tax reform package may not be perfect, getting rid of industry favoritism is an idea whose time has come.

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