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Michigan Taps Out on Tax Breaks for Economic Growth

The **Michigan Economic Development Corporation** has given out as many economic development tax credits as it can this year, according to [the Detroit News](#), meaning that for the rest of the year the MEDC can't give tax breaks to companies willing to move to the state or to local companies that are expanding. This has economic development officials talking doomsday and pushing the legislators to erase the state's annual limit on tax breaks.

"We're fighting an economic war with other states and we're out of ammo," **Mark Morante**, vice president of policy and legislative affairs for the MEDC, tells the News. MEDC CEO **Greg Main** uses military speak: "This is unilateral disarmament," the News quotes him as saying during a press conference in which he announced that MEDC had nothing more to give.

This is the first time we've read about an economic development program running out of money and, unfortunately, it's the sort of first that Michigan (unemployment rate: 15.2%) is getting known for. But while the tapped out tax breaks might be bad news to economic development officials, it would be welcome to many economists.



Will the Michigan Economic Development Corp. headquarters be quieter now that tax credits have run out?

Here's the disagreement: Economic development officials say tax incentives create or save jobs and give their state a competitive business climate. But incentives are have vocal opponents among advocates and economists, including **Arthur Rolnick** at the Minneapolis Fed who [testified against such programs](#) to Congress (in the war analogy Mr. Rolnick would be a peace activist). Their argument is these programs often cost more than advertised and drain money from schools, cops, parks and all the other quality of life services that actually make people — and thus, companies — want to move to a particular city or state.

Critics also argue that the vast majority of such deals are for local expansions that would happen with or without tax breaks, rather than luring companies and jobs across state lines. The News article notes one recent MEDC tax credit went to help **Quicken Loans** Inc. moves its headquarters about 20 miles to Detroit from Livonia. (The company plans to invest \$240 million in the project and promises to create 1,800 jobs, the story says.)

Even relocation consultants — who are to companies looking for tax credits as sports agents are to professional athletes — say they don't take tax credits into consideration until long after a relocation site (or a few final sites, at least) has been chosen. "We counsel our clients to not lead the process with incentives," said **Jack Boyd**, of the Boyd Co., a site selection company in Princeton, N.J., in an interview.

The News article raises some similar criticisms about the MEDC program:

Mike LaFaive of the Midland-based **Mackinac Center for Public Policy** said a study he has done indicates counties where companies have won tax breaks have seen no gains in employment or personal income. "This program doesn't create jobs, but creates job announcements," he said, meaning some expansions or relocations never happen and some don't create the jobs that were promised.

Of course, the problem with tax incentive programs is that — much like bank bailouts or economic stimulus packages — it's impossible to know what would have happened in its absence. **Greg LeRoy**, executive director of [Good Jobs First](#) and an opponent of tax incentives, says that question might finally be answered if the Michigan legislature (which, like most every state, is facing a whopper of a budget mess) doesn't raise the cap. "This will become an experiment, a side by side, with the credit available and without," he says.

Mr. LeRoy adds: "I would not expect deal flow to fall off a cliff; the business basics still apply."

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