



## MEGA: Real Jobs or Smoke and Mirrors?

by Michael D. LaFaive

### Summary

Proponents of the Michigan Economic Growth Authority (MEGA), a state jobs program, claim it has created over 74,000 jobs since its inception in 1995. But a closer look at the numbers reveals these claims to be greatly exaggerated.

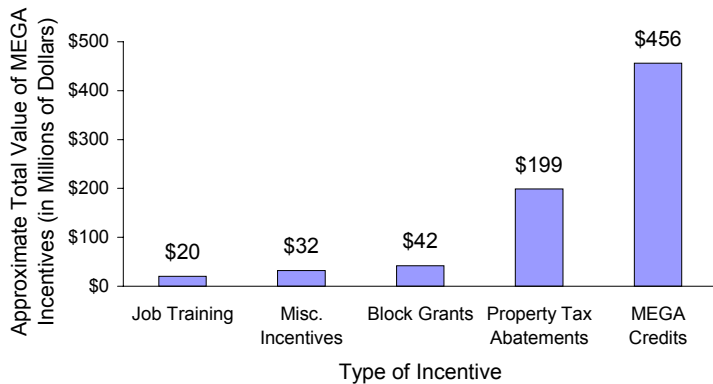
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The Michigan Economic Growth Authority (MEGA) is a program created by the Engler administration in 1995 to encourage economic development by granting tax credits to certain firms that promise to locate or expand in Michigan. The program's boosters claim it has created more than 74,000 jobs, but the defense of the program depends on misleading job claims and highly secretive economic analyses by University of Michigan economists.

So why should anybody care? Because trust is a vital ingredient in representative government. If officials cannot be straight with the public on one issue, they likely will be careless on others as well. Keeping government honest and hence our freedoms intact requires, as Ben Franklin once advised, "eternal vigilance."

For example, press announcements from the Michigan Economic Development Corporation (MEDC) maintain that MEGA is responsible for creating 1,378 new jobs at three companies: Kwang Jin Sang Gong, Gelman Sciences, and Aspen Bay Pulp and Fibre. Upon close inspection, however, it becomes apparent that none of these MEGA deals has yet to materialize.

### Estimated MEGA Incentives, 1995-1999



Source: MEDC and Local Governments

Consider the case of Aspen Bay. MEGA officials certified that Aspen Bay was "financially sound and that its plans for the expansion or location are economically sound," as required by law, and gave the company a nearly \$22 million head start—in MEGA credits and other incentives—over its competitors. After receiving the state's approval, the company was unable to find private financing for construction of a new pulp plant due to a weak market. The project has been on hold for four years.

The Mackinac Center for Public Policy has recently discovered Select Steel Corporation was also rejected by private bankers after being awarded a MEGA incentive package worth more than \$26 million.

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In 1984, then-Senate Majority Leader John Engler criticized then-Governor James Blanchard's "Strategic Fund" as an effort "to venture into the marketplace to find those companies that some people in this body . . . deemed to be worthy companies of state investment but [were] unable to attract any private capital investment." Those words now apply just as well to MEGA.

The Governor and the MEDC defend MEGA by talking about jobs they hope MEGA might "create" in the future as if those jobs had been created already. For instance, in announcing an extension of MEGA's legal authority last July, Governor Engler stated, "MEGA has resulted in an astounding 74,000 new, high-paying jobs in Michigan—jobs that would have gone to other states." But job forecasts prepared by University of Michigan economists under contract with MEGA clearly indicate that those job numbers are forecast over the life of the MEGA credits. Forty-four of the 68 MEGA deals involve credits lasting 15 to 20 years.

Moreover, the MEDC cannot prove that companies would not have moved to or expanded in Michigan without MEGA assistance. Instead, the MEDC simply relies on the promises of company executives in front of whom they have dangled multi-million dollar incentives.

Waldenbooks is a case in point. It was among the first three companies to receive MEGA favors—up to \$9.6 million in tax credits and job training incentives. But shortly after that, *The Detroit News* discovered that Waldenbooks President Bruce Quinnell had placed a deposit on a home in the Ann Arbor area before MEGA was ever passed into law. Quinnell was later quoted as saying, "Management has always expressed a preference to come to Michigan."

In Michigan's tight labor market it is highly likely that MEGA recipients simply lure away employees from other firms in the state. Yet, MEDC officials make no effort to account for that fact. They simply take full credit for all the jobs allegedly created by the firms that get the favors.

Moreover, MEGA job claims are obscured behind a veil of secrecy. The MEDC contracts with University of Michigan economists to do impact analyses of MEGA projects. Yet despite using taxpayer money, the MEDC has refused an independent request to peer review its job forecasts.

Intellectual honesty necessitates such reviews. Economist Edwin Mills of Northwestern University notes that such economic forecasts "are frequently misused by state and local governments and their consultants in ways that patently exaggerate the benefits of proposed state and local projects."

State economic development officials engage in considerable self-promotion at taxpayer expense, but enough misinformation and secrecy surrounds what they do to raise a valid question: How much of what they do really creates jobs and how much is just smoke and mirrors?

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(Michael D. 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](http://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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