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## Banking bailout: Boost or bust? Economic insiders mixed on impact to state

By [Amy Lane](#)

LANSING - A federal bailout package for the U.S. financial industry could boost Michigan consumers' psyche and banks' willingness to extend credit, lifting some clouds over an already-jittery and struggling state economy.

But it could also send a negative message to businesses and residents who face financial challenges every day and don't receive government help.

Those were some of the differing assessments Friday as a Washington bailout package continued to loom.

Economist Patrick Anderson, principal and CEO of **Anderson Economic Group L.L.C.**, said the bailout sets "a terrible precedent" and "destroys confidence in ... the institution of private property and individual investors taking responsibility for their own decisions."

He said the uncertainty posed by continuing turmoil on Wall Street is bad for Michigan and other states, but "the big uncertainty here is whether the government is going to bail people out or not. And I think we made a huge mistake when we started down that road."

Others say a bailout could help Michigan's economic picture, loosening credit and enabling stalled economic-development projects to obtain financing and move forward, and causing consumers to feel more confident about spending money.

To some industries, timing is no small matter. Michigan retailers, for example, are approaching their biggest sales period of the year amid national forecasts of a challenging holiday season and the lowest holiday sales growth since 2002.

A bailout is "certainly not going to hurt, and it's probably going to help," said Tom Scott, senior vice president with the **Michigan Retailers Association**.

"The best scenario would be for some type of package to be passed, and some level of confidence restored in the financial system. Just like the markets, consumers don't like uncertainty," Scott said. "If people are concerned about the economy having a meltdown, they're certainly going to be more reluctant to spend."

The national picture also could have bearing on Michigan tourism, at a time when the state is pushing ahead with its biggest-ever promotional budget.

**Travel Michigan**, the state's tourism-marketing agency, is full-tilt into fall advertising, preparing its first significant winter advertising in 15 years and heading toward an inaugural Michigan national campaign next spring — a \$10 million national promotion out of the \$30 million the state will spend in 2009.

Travel Michigan Director George Zimmermann said that "if people are not feeling secure, then travel is something they might well cut back on, or hold off on. Things like consumer confidence play into the picture."

But he also said a Michigan trip could be viewed as a closer and more affordable alternative than a trip out of the country. While conditions aren't ideal, Zimmermann said, "like everything else in the economy, you play the cards you're dealt."

"What are the options ... not to be out there selling?"

Areas like tourism, retail and auto sales — and jobs — mean tax revenue for the state budget. Analysts expect state revenue for the current fiscal year, which ends Tuesday, to be at or slightly above projections. But they're not so certain

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about the new fiscal 2009 budget year.

Jay Wortley, senior economist at the **Senate Fiscal Agency**, said the impact of financial sector turmoil on state budget projections is "hard to quantify at this point in time."

He said if a bailout plan "is successful in at least stabilizing things, then that would be good for the economy" and could help in areas like sales-tax collections. And "to the degree that it prevents credit from getting even tighter, that might have a positive boost on motor vehicle sales," Wortley said.

"The timing of it, how's it going to play out in the economy a month from now, two months from now, a year from now, we've got to figure all that out."

**House Fiscal Agency** Director Mitch Bean said businesses need to have access to capital at reasonable rates. "For firms, even very successful, secure firms, if your cost of capital goes up, it cramps your ability to expand and hire and so forth, and that's what has an impact on Main Street, through the job market," Bean said.

"When you start having increased job loss, that's really where the rubber hits the road. And the tight credit markets could certainly affect that."

Jeff Williams, senior vice president at nonpartisan think tank **Public Sector Consultants Inc.**, said that in terms of helping to strengthen Michigan, the \$25 billion in government loans proposed for the auto industry will have a more direct immediate effect than a financial-sector bailout.

But a bailout could make banks less conservative in lending, helping economic development projects, Williams said. And it could also provide a psychological boost to Michigan residents, he said.

"I don't think it's the terms of the bailout," Williams said. "I think it's whether there is or is not a bailout."

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