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Why are Michigan's tax incentives leaving state so poor

By Patrick Anderson and Lu Battaglieri

Each year, millions of dollars are given out by the state in tax abatements to encourage economic growth. Unfortunately, very little is done to track how these investments of taxpayer dollars perform — and where information exists, it points to mixed results.

The Michigan Education Association recently commissioned Anderson Economic Group to study the effectiveness of a number of state business tax incentives. The study inventoried the 36 available programs and did more in-depth analysis on eight of the most popular ones. Nearly $900 million in nominal tax expenditures were dedicated in 2008 to these eight programs alone.

The research found a troubling lack of transparency in reporting the results of these major taxpayer investments. And where data were available, there were “enormous variations” in effectiveness of these incentive programs.

Examples of these programs include tax abatements for manufacturers updating their facilities, special incentives for businesses and developers who want to rehabilitate dilapidated properties, substantial “MEGA” grants for high-tech industries, and a new program that gives away huge tax breaks to filmmakers who shoot their movies in Michigan.

Based on the data available, AEG determined the relative effectiveness of these eight programs. Results ranged from a “high” rating for the Industrial Facilities Tax Abatement, which is meant to encourage companies to renovate, expand or build plants in Michigan, to a “low” mark for Michigan’s film incentives program, which is supposed to draw moviemakers to the state.

The much-ballyhooed film tax incentive program thus far receives a failing grade: AEG’s study found that the state invests $40,000 to $50,000 in taxpayer money for each job created by the film incentive. A credit of $50,000 means the state isn’t just incentivizing the activity — it is actually paying for the right to say “Clint Eastwood slept here.”

Exacerbating the problem, there is no comprehensive inventory of all the state’s business tax incentives and no independent agency that collects information or administers these tax breaks.

Existing data on these incentive programs is deeply affected by self-interest. For example, eligibility for the film incentives program is determined by the Michigan Film Office, whose perceived success is based on the number of filmmakers it lures to Michigan locations – not on the net benefit for Michigan taxpayers.

While the state is throwing money at programs that may or may not create jobs, many other programs are suffering with budget cuts.

Businesses consistently point to work force quality as being more important than tax breaks in choosing where they locate. Universities, community colleges, and public schools prepare that workforce, which is why investing in public education is a good, stable investment in our long-run economic future.

This situation begs an obvious question: How much good are millions of dollars in tax breaks to manufacturers of hybrid and electric car batteries if those new green jobs can’t be filled by welltrained Michigan workers?

We aren't against using tax incentives to grow Michigan's economy. We simply want our political leaders to make informed decisions about spending our tax dollars – and ensuring we get the biggest bang for our buck. Michigan could encourage more jobs, train workers for them, maintain or decrease tax rates, and bring in the same or greater tax revenue simply by reforming certain incentives.

Either way, taxpayers deserve transparency to know that their money is being spent wisely — and right now, no one has the data to say whether or not our tax incentive programs are a smart investment for Michigan's future.

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