The Economic and Fiscal Effects of MEGA

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Summary of Conclusions

- MEGA has increased Michigan's employment, compared to if MEGA had never existed, by at least 18,000 jobs by 2007
- The fiscal benefits of MEGA offset two-thirds of the costs of MEGA credits in 2007
- From 1996–2007, MEGA's average costs per job created are $3,490
- If MEGA had never existed, and been replaced with a business tax rate cut, Michigan by 2007 would have lost over 16,000 jobs and had net fiscal costs of over $53 million

MEGA Description

- Refundable credit, awarded with some discretion to "export-base" businesses to encourage creation or retention of jobs, with credit tied to income taxes paid by additional workers

- Average credit per job-year: $2,188

- Average time period of credit: 15.75 years (shortened in recent years)

- 49% of credits in auto-related industries, 31% in other manufacturing, 20% in non-manufacturing

Assumptions of Our Impact Analysis

- MEGA credit's effects in tipping location decisions (8.2%) are based on research on how business location responds to taxes. This assumes no selectivity by MEDC of projects where MEGA more likely to be decisive.

- MEGA-induced jobs have multiplier effects on Michigan economy based on Upjohn Institute's REMI model. (Multiplier of 3.88 in 2007.)

- Effects on state and local tax revenue and on required public expenditures estimated based on research literature on how revenue and expenditure respond to economy.

- Counterfactual: Baseline is reduced public spending that does not reduce service quality; in addition, we consider counterfactual of changes in business tax rates.

Baseline Effects

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Gross MEGA credit costs ($M)		1.0	3.0	6.0	10.3	13.3	19.1	21.9	28.5	44.3	65.4	83.6
Net job effects (00Os)	0.1	0.3	0.5	1.0	1.2	1.7	1.9	2.4	4.9	7.7	10.4	18.0
Net fiscal effects ($M)	0.2	−0.2	−1.7	−3.3	−7.0	−8.8	−14.7	−16.7	−16.6	−23.2	−34.9	−28.8
Net fiscal effects per job created ($)	3,440	−863	−4,515	−4,278	−7,230	−6,292	−9,156	−8,255	−3,863	−3,331	−3,573	−1,660

- Difference between gross credit costs and net fiscal costs is fiscal benefit from economic boost: $54.8 million in 2007 (= $83.6M − $28.8M)

What if MEGA had never existed, and instead Michigan had cut state business tax rates?

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Gross job effects of MEGA (000s)	0.1	0.3	0.6	1.2	1.5	2.0	2.4	2.9	5.6	8.7	11.9	19.9
% cut in State Business Tax allowed by eliminating MEGA		0.06	0.18	0.34	0.57	0.71	1.01	1.13	1.43	2.15	3.08	3.83
Gross job effects of cutting State Business Tax (000s)		0.0	0.1	0.2	0.4	0.5	0.7	0.9	1.2	1.7	2.4	3.2
Net job effects of substituting overall business tax cut for MEGA (000s)	−0.1	−0.3	−0.5	−1.0	−1.1	−1.5	−1.7	−2.0	−4.4	−7.0	−9.5	−16.7
Fiscal effects of substituting overall business tax cut for MEGA ($M)	−0.2	−0.8	−1.3	−2.7	−3.3	−4.5	−4.4	−5.1	−11.9	−21.0	−29.9	−53.7

- Elimination of MEGA only allows modest cuts in business tax (3.83% in 2007)
- MEGA credits tend to have greater effects than business tax rate cuts because:
  - More targeted at export-base, high-wage businesses
  - More targeted at “new capital” than “old capital”

Final Thoughts

- MEGA passes a benefit-cost test: creates jobs at a cost ($3,490) that is far less than benefits
- MEGA could have a higher benefit-cost ratio with greater selectivity
- MEGA has modest effects on Michigan's economy (increases employment by one-third of 1%), but program is of modest size (costs are 3/100% of value of private sector output)
- A sound Michigan economic development strategy would have MEGA as just one component
- Other needed components: customized job training, manufacturing extension, universal pre-K, career academies. Bartik (2009)[1] outlines 8 component strategy with annual costs of $873M, benefits of $5.5B.

[1] Bartik, Timothy J. 2009. *What Should Michigan Be Doing to Promote Long-Run Economic Development?* Upjohn Institute Working Paper No. 09-160.