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Writing Sample: A section from "Pensive about Incentives: Economic Development as Urban Policy in Lansing, Michigan"

Over the past decades, numerous and various municipalities around the State of Michigan have embraced, or at least engaged, the obligation, or even compulsion, of offering economic development incentives. The incenting of private, for-profit firms to locate within a municipal jurisdiction has become an obscured mixture of the desperate pursuit of and conceited quest for "jobs, jobs, jobs." This frenzied endeavor has brought about an inundation of academic criticism and political condemnation, from skeptical econometricians to disillusioned community organizers. To many observers, the tax incentives proffered by economic development officials seem little more than imprudent and unjustified giveaways to entrenched local elites and business interests.

Why incent? This simple question poses substantial difficulty for municipal officials throughout the state of Michigan. In personal interviews the author conducted with Robert Trezise, CEO of the Lansing Economic Development Corporation (LEDC), the answers were never as simple as the questions. In public policy, they rarely are. So, why incent? "I believe our job is to create an environment that makes private business and private investment and private job creation more likely than not," responds Trezise, "to me, a part of that is incentives, but an environment means a lot of things. It could mean a political environment that is stable and responsive to business' requests. It could mean having a vibrant arts and culture environment. It could mean that trash is picked up off the street. It could mean that schools are excellent." Yet, if in a stable municipal *regime, the trash is picked up, the art festival is faring well, and the students are graduating, then, again, why incent? Should not the Free Market, the Invisible Hand, Tiebout's Model of local expenditures, induce efficient location and generate Pareto gains sourced in the unique advantages that each municipality epitomizes? Are not tax incentives merely kickbacks to the already rich and elite, a perverse institution that enables them to hedge paying their fair share and profit at the expense of the rest of the community? To answer these questions, this paper will explore the realities of the Michigan economy in attempt to understand what forces are motivating municipalities to abate their taxes and forego their revenues; offering incentives to firms rather than relying exclusively on geographical attributes and locational advantages.*

What Franklin Roosevelt proclaimed as the Arsenal of Democracy is today commonly identified by the dysphemistic Rust Belt. Michigan's manufacturing cities, once the might of American ingenuity, are now laid bare, corroded by the restructuring economy, the globalized new world order. Durable goods manufacturing by highly unionized labor, the impetus of Michigan's economy, can no longer compete in a restructured, global economy. "Michigan is very heavily involved in a sector of the economy that has been in relative decline for several decades," states Charles Ballard, "that simple fact is the source of many of the challenges facing Michigan's economy" (Ballard, 2006). Ballard goes on to compare the current economic restructuring with a revolution occurring over a century earlier. Noting that improvements of productivity in agriculture in the 19th century created the standard of living that enabled innovators and entrepreneurs to divert their energies and surpluses to industrial endeavors, including *manufacturing of the durable goods that Michigan prospered from, also had the effect of surpassing many agricultural workers, leaving them stranded with skills that were no longer demanded. Today, those skills are those of the assembly linesman. Jobs that were once abundant in Michigan are now absent. Firms that were once expanding at a rate unprecedented are now contracting unremittingly. Cities that were once part of the Arsenal of Democracy, the destination of immigrants from overseas and down South, are now rusting away.*

What was it that instigated such a drastic reality for Michigan? And why have Michigan municipalities reacted with near incessant incenting? As the restructured economy branches out into new global markets, it is technological innovation that form and nurture the roots. Advances in transportation and communication technologies have facilitated the mobility of capital. Michael Porter asserts, "It no longer is necessary to locate near large markets to serve them" (Porter, 2000). Suppliers no longer face the prerequisite of locating within a proximate geographical range to their market since they can efficiently transport goods at low cost, keeping prices affordable for consumers. Likewise, communication networks permit the transfer of information between market participants at a rapidity and affordability never before imagined. According to Porter, this has "diminished many of the traditional roles of location." Clearly, location is not as important as it used to be. While this is good for producers and consumers, and speculators, who reap increased surpluses due to greater production at lower costs, it is a disaster for municipalities who cannot move with the market; who are, by definition, restricted to their geographical space.

An economy that promotes and demands flexibility and mobility from firms presents enormous challenges for municipalities and the workforce that reside within their jurisdictions. Municipalities are presented with two realities: First, the relative decline of the Michigan economy, now restructuring due to competitive global forces well beyond the control of state or local officials, and second, the firms still operating within the State, now have greater ability to locate outside of central markets, thus central cities, due to advances in technology. "Businesses have many more sites that are acceptable options from a transport and communications perspective," affirms Timothy Bartik, and so they "are much more sensitive to local costs, such as wages and taxes." Tax incentives become more influential in inciting firm location as the geographical area narrows since the municipalities become closer substitutes for one another, offering similar access to markets and inputs. These realities help to explain the enthusiasm of municipal officials in proffering economic development incentives. "Because corporations are becoming more footloose, they are becoming more responsive to incentives" (Bartik, 2005). As geographical attributes become less decisive, municipalities are compelled to make themselves more attractive to firms by other means. This is especially true in a state where economic growth has been anemic. Incenting is the attempt by municipalities to retain or attract firms in a declining and doubtful economic environment, in reaction to what Wolman and Spitzley identify as "the economic and fiscal problems posed by the mobility of capital across fixed geographic boundaries within a highly fragmented system of local governments" (Wolman & Spitzley, 1996).