

## Jack Lessenberry's Essays & Interviews

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### Essay: Enterprise Zone - 10/25/06

There is a school of thought that believes entrepreneurs base all their business decisions on taxes. Lower taxes, and business will move in. Raise them, and business will move away.

This is firmly believed, for example, by many Republican politicians, who used to talk fervently about what they called the "Laffer Curve." That's something economist Arthur Laffer supposedly sketched on a napkin during a 1974 meeting with Dick Cheney.

The Laffer curve says the more you raise taxes beyond a certain point, the less the government actually collects. Why? Because when people feel taxes are too burdensome, they stop working or move away.

Laffer curve theorists firmly believe that if you lower taxes, it will stimulate economic activity so much that the government will actually take in more money. All you have to do is find the right low level.

The most famous disciple of that theory was Ronald Reagan. Unfortunately, the huge tax cuts he got through Congress didn't pay off as fast as he thought, which meant record deficits.

Thinking like this is behind the concept of Renaissance zones. The idea is to lure businesses to come into an economically depressed area by suspending most or all taxes for a number of years.

The theory is that this will draw jobs to the area, that spinoff businesses and industries will follow, housing will be built or rehabbed, and before long the area won't be blighted any more. Eventually, the neighborhood will be able to make it on its own without tax breaks. That's a beautiful dream, but as far as I can tell, it hasn't worked.

Experts say the results aren't definitive, but if Michigan's renaissance zones had produced any kind of economic boom, you can bet we would have heard lots about it by now.

Here's what I think. The entire concept is fundamentally flawed. Lower tax rates are no longer the main issue that determines where companies locate. Quality of life issues are much more important.

Sure. Let's say my choice is between two pleasant similar suburbs – Mason or Okemos, say. If one gives me a massive tax break, I may well locate there. But I wouldn't move my firm to Highland Park, no matter what. The schools are dysfunctional, the streets are a mess, the city is broke, and there is not adequate police protection.

Plus, after years of neglect, the place is an eyesore. The fact is that while nobody likes to pay excessive taxes. Western Michigan University sponsored a recent survey to determine just what attracts wave-of-the-future, new economy jobs.

It found that two of the highest tax states, California and Massachusetts, were doing the best. Employers wanted an educated work force and a pleasant environment.

That means services. Schools. Litter picked up. Police who come right away if you need them. Those are all things paid for by taxes, and taxes are the price we pay for a civilized society. If we spend the money to build it, they will come.