



Fact Sheet: The Realities of Economic Development Subsidies

By Andrew Schwartz | November 1, 2018

In today's headline-focused media culture, short-term political optics often outweigh reality, and elected officials spend considerable time and effort to spur economic development—especially at the state and local levels. State and local tax incentives for small to midsize companies have tripled since 1990, and efforts have increasingly shifted toward moonshot strategies—such as GlobalFoundries in New York; the Boeing Corporation in Washington and South Carolina; Foxconn Technology Group in Wisconsin; and Amazon in its yet-to-be-determined second headquarters (HQ2) location. Winning one of these bids is a politician's dream because it creates immediate positive headlines.

However, negatives, such as companies failing to deliver on their promises, come to light much later and often receive less attention. Elected officials and the public must be cognizant of the underdiscussed realities of the subsidies intended to drive economic development.

Reality 1: Economic development incentives often are not crucial to where firms locate

Businesses consider a wide variety of variables when deciding where to locate a headquarters or a branch: for example, real estate availability, workforce and education, infrastructure, access to markets, community, and quality of life. State and local taxes, however, which average less than 2 percent of the total costs of doing business nationally, are not a major consideration.¹

Evidence:

- In 2015, ConAgra Foods relocated from Omaha to Chicago. Despite receiving an offer from Nebraska that included more incentives, the company's CEO commented on choosing the location based on the "strategic needs of [the] business" and the fact that its new downtown location would put it at "the heart of one of the world's business capitals."²
- A study of companies that received property tax breaks to encourage new business expansion found that only 15 percent of firms actually needed the incentives in order to make an investment in Texas. There were even instances where companies applied for and received tax breaks after completing a project.³

Reality 2: Benefits from incentive deals may not live up to the promises

The announcement of potential deals almost always includes the number of jobs and the amount of total investment. However, these rosy projections may not be borne out, as firms may change their business models or even go out of business altogether.

Evidence:

- Business tax incentives cost an average of \$16,600 per job per year, which is far more than other economic development strategies such as neighborhood development, brownfield redevelopment, infrastructure investment, and customized job training.⁴
- Tech companies Apple and Facebook received hundreds of millions of dollars in benefits from Iowa and Utah, respectively, for data centers with fewer than 50 employees.⁵

Reality 3: Subsidies may result in diminished public services

When state and local governments commit taxpayer resources to providing incentives, there are opportunity costs. In many cases, these include an inability to fund education, provide affordable housing, or contribute to “rainy day funds.”

Evidence:

- Maryland’s Montgomery County is an Amazon HQ2 finalist. Its Democratic nominee for county executive supports Maryland’s \$8.5 billion in subsidies to attract the company but admits that “schools is the thing where we’re going to need help.”⁶
- In Sparks, Nevada—home to Tesla’s battery factory—property values and rents have boomed; yet the city has been unable to assist its residents with new programs because tax revenue growth has barely kept up with inflation.⁷

Reality 4: Governments competing for businesses by providing incentives is often a zero-sum game

It is bad tax policy to narrowly target subsidies that lead to differing tax incentives for companies in the same sector. State and local governments end up with a haphazard economic development strategy. Instead, a level playing field—paired with investments in infrastructure, workforce, and other public goods—would make a place more attractive to a wide variety of businesses.

Evidence:

- In one survey of economists, only 5 percent of respondents agreed that the country “as a whole benefits when cities or states compete with each other by giving tax incentives to firms to locate operations in their jurisdictions.”⁸
- A study of New York state found that when development agencies are more densely located, there is an increase in the probability that a company receives incentives and that those incentives are larger.⁹

Reality 5: Transparency and evaluation of incentives are minimal

Incentives frequently happen through opaque processes, with little information on important aspects like total subsidy amounts. Taxpayers would not accept a comparable lack of transparency on infrastructure or education spending from a public entity; yet these tax expenditures receive minimal oversight, and governments sometimes even actively conceal information.

Evidence:

- After receiving an open records request, Montgomery County, Maryland, released its Amazon HQ2 proposal but redacted every single line of the document.¹⁰
- The Austin Chamber of Commerce submitted a bid for HQ2 on behalf of the city without but refused to inform its elected officials of the details.¹¹

Conclusion

Far too often, economic development incentives are irrelevant to decision-making, fail to meet promised results, take away from existing or potential public services, lead to zero-sum competition among governments, and lack appropriate oversight. Until elected officials are held accountable for condoning opaque and non-targeted deals, taxpayers will bear the costs while companies reap a majority of the benefits.

Andrew Schwartz is a policy analyst for Economic Policy at the Center for American Progress.

Endnotes

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- 2 Barbara Soderlin, "To move its HQ to Chicago, ConAgra settled for less than half the \$28.5M in incentives that Nebraska was willing to offer," *Omaha World-Herald*, September 27, 2016, available at http://www.omaha.com/money/to-move-its-hq-to-chicago-conagra-settled-for-less/article_b0fa9002-1b42-55e7-a368-bafbbd6098b9.html; Lee Schafer, "ConAgra's move from Omaha to Chicago shows that big cities still reign," *Star Tribune*, October 10, 2015, available at <http://www.startribune.com/conagra-s-move-from-omaha-to-chicago-shows-that-big-cities-still-reign/331826751/>.
- 3 Nathan Jensen, "Exit options in firm-government negotiations: An evaluation of the Texas chapter 313 program." Working Paper (Washington: Washington Center for Equitable Growth, 2017), available at <http://equitablegrowth.org/working-papers/exit-options-negotiations/>.
- 4 Since the length and number of jobs for incentive deals vary, "per job per year" is a standardized measure for comparisons. Timothy J. Bartik, "Helping Manufacturing-Intensive Communities: What Works?" (Washington: Center on Budget and Policy Priorities, 2018), available at <https://www.cbpp.org/research/full-employment/helping-manufacturing-intensive-communities-what-works>.
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- 6 Jennifer Barrios, "Elrich reassures Amazon he'll honor county commitments," *The Washington Post*, July 20, 2018, available at https://www.washingtonpost.com/local/md-politics/elrich-reassures-amazon-hell-honor-county-commitments/2018/07/20/f298f906-8bae-11e8-8aea-86e88ae760d8_story.html.
- 7 Rory Carroll, "All humanity has left the area: paying for Tesla's Gigafactory," *The Guardian*, July 3, 2018, available at <https://www.theguardian.com/cities/2018/jul/03/all-humanity-has-left-the-area-the-cities-paying-for-tesla-giga-factory>.
- 8 Initiative on Global Markets (IGM) Forum, "Local Tax Incentives," March 24, 2015, available at <http://www.igmchicago.org/surveys/local-tax-incentives>.
- 9 Evan Mast, "Race to the Bottom? Local Tax Break Competition and Business Location," *Employment Research* 25 (1) (2018): 4–6, available at http://research.upjohn.org/cgi/viewcontent.cgi?article=1267&context=empl_research.
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- 11 Jimmy Maas, "Austin's Bid Is In For Amazon's Second Headquarters," KUT 90.5, October 18, 2017, available at <http://kut.org/post/austins-bid-amazons-second-headquarters>; Creswell, "Cities' Offers for Amazon Base Are Secrets Even to Many City Leaders."