

Curbing Corporate Welfare

Hometown Advantage

January 9, 2006

Providing tax breaks and other kinds of subsidies to attract or retain businesses has become increasingly common over the last twenty years. Wal-Mart, for example, has received over \$1 billion in public subsidies from state and local governments, according to a recent report by Good Jobs First.

There are three primary problems with development subsidies:

Questionable Public Benefit - Few cities and states have binding standards to ensure that subsidies actually produce quality jobs. A study in Minnesota found that half of recent subsidy deals went to companies paying wages more than 20 percent below market levels for their industries.

Pirating Jobs - Cities and towns frequently use tax incentives and development subsidies to lure companies from other cities or states. Corporate threats of relocation can spark a bidding war between cities. "Job piracy" produces no real economic benefit, as no new jobs are created.

Undermining Local Businesses - Subsidies are rarely provided to locally owned businesses. Instead, these businesses often see their tax dollars used to subsidize their biggest competitors.

Subsidies are particularly unwarranted in the retail sector. Providing subsidies and tax breaks for big box development not only creates an uneven playing field for locally owned businesses, but studies have found that big retail stores produce no net gain in employment. That is, they destroy as many jobs as they create by taking sales away from existing businesses that then downsize or close. Big box retail also contributes to sprawl and increased public costs for services like road maintenance and police.

RULES:

Anti-Piracy Laws

Almost all federal economic development programs now have anti-piracy provisions, which bar aid to a company that is relocating from one state to another. A number of states have enacted similar measures. A California law, for example, prohibits public agencies from providing any form of assistance to auto dealerships or large-scale retail stores relocating from one city to another in the same market area. A Michigan law allows a city to veto a property tax abatement provided by another city when it's used to move a business from the former city to the latter.

Living Wage Laws

Some cities have adopted living wage laws that stipulate that any company receiving a tax break or public subsidy pay wages sufficient for employees to meet basic needs.

Regional Tax-Base Sharing

The quest for revenue-generating development creates competition among neighboring jurisdictions, which may engage in bidding wars to offer developers the biggest tax breaks or least stringent environmental regulations. Regional tax-base sharing offers one way to alleviate this problem.

TIF Reform

When used to off-set the high costs of redeveloping blighted sites in poor neighborhoods, Tax Increment Financing (TIF) can be an effective economic development tool. However, all too often, cities are using TIF to underwrite projects in non-blighted, affluent areas, to subsidize construction on previously undeveloped land, and to finance big box retail.