
Throwing Money at Businesses Has Been a Bad Idea Since the Start.

It's time to abandon corporate tax breaks. Just look at their history.

While spending public resources to lure private companies and the jobs they bring has mushroomed in recent years, the idea is actually pretty old. In his book *City Power: Urban Governance in a Global Age*, published last year, law professor Richard Schragger cites a passage from the September 1890 issue of Scribner's Magazine: "A curious outgrowth of the rivalries of American cities, is the practice that obtains so generally of offering bonuses and pecuniary inducements to manufacturers to move their plant."

It was a bad idea then. It contributed to a municipal bond default crisis when promised returns did not materialize and cities could not pay off the debts they had incurred. And as the evidence densely piled up in Schragger's book demonstrates, it remains a bad idea today.

Yet the practice continues to grow. This March, the Upjohn Institute published the most comprehensive study of economic development incentives yet produced, analyzing data from 1990 to 2015. The researchers found that although the average amount of incentives tripled over that period, increasing from 9 percent of business taxes to 30 percent, they were largely ineffective and governments would have experienced the same results without the incentives 94 percent of the time.

Governments looking for a more effective way to spur economic development ought to take a look at what's going on in Richmond, Va. In 2014, then-Mayor Dwight C. Jones created the Office of Community Wealth Building, which was charged with reducing overall poverty by 40 percent and child poverty by 50 percent by 2030. The program's integrated strategy focuses on expanded workforce development, targeted job creation, improved educational outcomes and development of a regional transportation system.

Unlike a lot of innovative government programs, the Office of Community Wealth Building has not only survived a change of administration but has been strengthened and expanded. The current mayor, Levar Stoney, lauded the program during his campaign. A quarter of Richmond's residents live below the federal poverty level and, as Stoney says, "You can't be a AAA bond-rated city without reducing poverty."

Richmond hasn't entirely abandoned the idea of incentives. While cash incentives that Stoney proposed didn't survive the budget process, two business developments in Richmond each received major tax breaks from the state. In each case the city provided customized workforce training, which the Upjohn study says research suggests "might be 10 times more effective than tax incentives in encouraging local business growth." But states typically spend only $1 on customized job training for every $20 in tax incentives, the researchers found.

In *City Power*, Schragger writes that while abandoning economic development policies that rely on tax breaks and other giveaways is practically impossible politically, "it is the right thing to do." Perhaps as the evidence piles up and experiments like Richmond's are seen as successful, more public leaders will be able to actually do the right thing.

GOVERNING.COM

By Mark Funkhouser | Publisher
Former mayor of Kansas City, Mo.

AUGUST 2017