New book defends job-creating incentives but calls for accountability

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KALAMAZOO, Mich.—“Economic incentive competition has accelerated in the past decade, and the deals have become both larger and riskier,” says Ann Markusen, University of Minnesota professor and editor of a new book titled *Reining in the Competition for Capital.* “Incentive competition is spreading to developing countries, where local and regional leaders, as in the United States, are having a difficult time knowing how to respond.”

Markusen’s new book presents convincing analysis on the evolution and current practice of incentive competition. Eight prominent U.S. and European economists, researchers, and practitioners probe the successes, failures, and abuses of incentive competition and explain how the “market for jobs” can be reformed to maximize benefits for residents and communities. The book is published by the W.E. Upjohn Institute for Employment Research.

Three contradictory views of job bidding (the practice of trying to lure companies through incentives) are examined in the book: 1) that it is market-distorting and should be outlawed, as recent court cases and legislative proposals have held; 2) that it is benign and optimally allocates jobs across communities that differentially value them; and 3) that it can be a useful tool for job creation but is susceptible to abuses because of market failures. The book’s authors generally support the third view.

Timothy Bartik shows that increasing local employment can under certain conditions yield substantial net social benefits. This requires that incentive costs be less than new revenues generated, that jobs go to existing local residents, and that there not be better prospects for a firm elsewhere. “Despite some projects that meet these standards, the market remains rife with failures,” insists Markusen.

Several of the authors demonstrate that bidding governments often lack good information and bargaining expertise. This leads to overestimated benefits, waning business tax receipts, and difficulties meeting future operating budgets, especially when firms fail or decamp for lower-cost locations.

The book compiles aggregate evidence of the downside of incentive competition. For instance, William Schweke shows that in a $1 billion North Carolina initiative, only 4 percent of the jobs created were induced by the program, at a cost of $40,000 per job. In another chapter, Markusen and coauthor Kate Nesse cite an Ohio study where firms receiving incentives exaggerated anticipated employment gains, then created no new jobs, while other firms not receiving incentives accurately forecast job expansion and followed through with new jobs.
Bartik also shows that nationally about 80 percent of incentive-related new jobs go to outsiders who move to the area, and Peter Fisher reveals that tax giveaways to firms burdened state governments by causing the corporate income tax share of state revenues to fall by 40 percent from 1980 to 2004.

The book also explores best practices in fashioning and regulating economic development incentives and examines how these enable public-sector economic developers, like good customers in any market, to get a better deal. Adinda Sinnaeve describes how the European Union successfully curtailed incentives by restricting them to lagging regions and then only for investments in training and technology. Greg Leroy recommends similar treatment of incentives for retail in metropolitan areas.

Rachel Weber shows that many local governments in the United States already employ performance requirements: They write penalties and repayment provisions into contracts and extend benefits only after firms produce the jobs they promise. In these localities public dollars are invested in place-based assets rather than firm-based ones.

Sunshine, argues Leroy, is the best cure for the economic malaise brought about by poorly conceived economic incentive offers. Twelve states currently require public disclosure of incentive plans, and some require disclosure of corporate income tax breaks as well. The authors also espouse unified development budgets, regulation of site consultants as lobbyists, and federal government inducements against job piracy.

“Governments will continue to shape economic development,” says Markusen, “but they can become much better dealmakers. This book charts a pragmatic path for doing so.”