

THE STATE OF STATE SUBSIDIES

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Research sponsored by the Mercatus Center, George Mason
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<https://www.mercatus.org/publications/corporate-welfare/state-state-and-local-subsidies-business>

- ▶ Every state in the country, and thousands of municipalities, offers subsidies to attract business investment. Estimates range from about \$32 billion to \$80 billion per year. Yet there are three major potential problems.
- ▶ 1. Efficiency (and rent-seeking)
- ▶ 2. Equity
- ▶ 3. Environmental

- ▶ These varied potential problems make unusual political coalitions possible to solve the problems.

LOCATION SUBSIDIES: COMMON BUT FREQUENTLY PROBLEMATIC

- ▶ Most analysts believe economic development subsidies are almost always bad policy: Ineffective, overly costly, poorly supervised. Yet thousands of projects receive state and/or local subsidies every year.
- ▶ In the worst cases, there are bidding wars that drive up the cost to sometimes astronomical levels.
- ▶ The most famous recent case is Amazon's "HQ2" project, with 238 bidders across North America and 20 finalists competing for the grand prize. Amazon split the investment between NYC and NoVa.*
- ▶ At a smaller scale, this happens many times every year.

AND YET – THERE ARE BIDDING WARS

- ▶ Type of payment: Cash grants; tax measures; loans to firms (at non-market terms or availability); loan guarantees; capital injections; guaranteed excessive rates of profit; free/below cost inputs such as land or power; purchases of goods from firms at inflated sale prices
- ▶ Location subsidies vs. non-location subsidies: The former are the focus of this report from Mercatus. Some subsidies don't require an investment, such as NC's cigarette export subsidy.

TYPES OF SUBSIDIES

- ▶ This Mercatus report makes new estimates for state incentive spending in all 50 states and the District of Columbia (Bartik 2017, an otherwise excellent study, only has 32 states + DC, not including Vermont).
- ▶ Based on the NYT “United States of Subsidies” study published Dec. 2012. But it had many flaws I had to fix.
- ▶ The bottom line is that the states together spent \$16 billion on incentives, approx. 0.1% of gross state product. Vermont spent \$12.4 million or 0.04% of GSP. AK tops @ 1.1%, NH least 0.002%. From my previous research, \$16 billion state implies \$32 billion state/local.

THE STATE OF THE STATES: SPENDING

- ▶ Transparency gives us access to information.*The non-profit Good Jobs First has made two studies of state transparency based on online disclosure of company-specific subsidy information. The last study was in 2014, and much has changed and is changing, but at that time Vermont ranked fifth in the country.
- ▶ Enforcement concerns whether a state asks for strong commitments and holds companies accountable when they fail to live up to them. In 2012, the last GJF survey, Vermont was #1.

STATE OF THE STATES: TRANSPARENCY AND ENFORCEMENT

- ▶ In 2017, Government Accounting Standards Board (GASB) Statement 77 came into effect.* While compliance is still uneven, GASB-77 will improve transparency in the next few years.
- ▶ Info on Vermont's municipal compliance?
- ▶ Last year saw first legally-binding no-raiding agreement, KS-MO

LOOKING FORWARD

