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VEGI - The core of the onion ("but for")

Advocates (including direct beneficiaries) insist that VEGI produces a solid return on investment and that there is no cost to taxpayers. That assumes the "but for" is reliable. But, as I have reported elsewhere, VEPC's "but for" due diligence is deficient, so we're left with faith, and I can't audit faith.

However, we can look to peer-reviewed literature. In a recent review of studies of business incentives with "but for" requirements, a leading economist Timothy Bartik[1] reported that:

> "*Based on a review of…30 different studies, this paper concludes that typical incentives probably tip somewhere between 2 percent and 25 percent of incented firms toward making a decision favoring the location providing the incentive.* ***In other words, for at least 75 percent of incented firms, the firm would have made a similar location/expansion/retention decision without the incentive***."[2]

If Bartik is right, Vermont has wasted tens of millions of dollars[3] paying businesses to do what they were planning to do anyway. At this point, it is fair to ask how Bartik reached his conclusions.

> Of the 30 studies reviewed, "*The most common type of study compares incented firms and un-incented firms within a single state. Other studies compare counties that differ in incentive usage within a single state. Still other studies are based on surveys that ask firms or economic development experts to estimate "but for" percentages. A final group of studies uses data from multiple states and compares the economic performance of states with different incentives*."

In light of the conventional wisdom about business incentives reported in the media (i.e., they work), it is important to consider some facts that help explain the failure of incentives to be more influential.

> "*The main reason "but for" percentages aren't higher is that there are many other location and cost factors that have more major effects on a firm's costs and profitability. These other location and cost factors not only are a larger share of costs than typical incentives, but also vary quite a bit across state and local economies. Because these other location and cost factors vary greatly across diverse state and local areas, typical current levels of incentives are only able to tip a location decision toward a particular state or local area in a minority of cases, and probably less than one-quarter of cases*."

With all this in mind, the Legislature could justify reallocating the funds devoted to VEGI to other economic development strategies and programs.

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1 Mr. Bartik's work has been cited more than 5,000 times since 2016.

2 All quotes from Bartik, "But For" Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?"

3 From the program's inception through December 2019, VEPC authorized $90.4 million in VEGI awards. Of that, $38.5 million has been rescinded or forfeited. The remaining $51.8 million has been paid out or is available to eligible companies. In addition, $34 million in tax credits have been applied to offset income tax from the EATI.

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