

# Economic Development Incentives

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# Economic Development Incentive Goals



- Improve Quality of Life
  - Increase Economic Prosperity
- Increase Output per Capita
  - Increase Output Value

# Arguments for Incentives



- Incentives May Fix Market Failures
- Incentives May Address Policy Goals Besides Efficiency
- Incentives May Address a Distorted Market

# Arguments Against Incentives

- Incentives May Not Change Behavior
- Incentives May Displace Local Business
- Benefits May Not Flow to Residents
- Costs May Outweigh Benefits



# Do Incentives Work?



Do Incentives Work?

It Depends Who  
You Ask

# Do Incentives Change Firm Behavior?

## YES

- An 10% increase in business taxes is associated with a 0.04% increase in business exit  
(Prillaman and Meier, 2014)
- Economic development spending had a positive impact on the formation of both new enterprises and new establishments (Goss, 1994)

# Do Incentives Change Firm Behavior?

## NO

- Although firms welcome tax incentives, availability of transportation and low labor costs more often drive business decisions about expansion and relocation (Francis, 2016)
- We find no support for the view that a favorable 'business climate' alone can substantially stimulate new locational activity for branch plants (Carlton, 1983)

# Do Incentives Change Firm Behavior?

## WHY?

- In some cases roughly 30-45 cents of every dollar given as incentives goes to other governments, primarily as higher federal taxes (Peters and Fisher, 2004)
- Low taxes and large incentives may indicate poor public services (Peters and Fisher, 2004)

# Do Incentives Increase Employment?

## YES

- A new job was created for each \$5,000 in employment tax credits (Faulk and Hicks, 2013)
- Enterprise zone designation reduced unemployment claims filed at the area office by about 19-25% (Papke, 1994)

# Do Incentives Increase Employment?

## YES

- The impact of economic development spending on employment growth rates may be powerful enough to overcome the negative effect of raising taxes to fund economic development spending (Goss and Phillips, 1994)

# Do Incentives Increase Employment?

## NO

- No positive influence of firm level tax credits on job growth (Gabe and Kraybill, 2002)
- No evidence that enterprise zones affected the employment of zone residents (Elvery, 2009)
- No significant difference in the rate of growth in [enterprise] zones versus the rest of the zone city (Dabney, 1991)

# How Effective Are Incentives?

- Only one in ten dollars spent on tax incentives for economic development have any effect  
(Reese, 2014)
- Best case is that incentives work about 10% of the time, and are simply a waste of money the other 90%  
(Peters and Fisher, 2004)

# Best Practices: Successful Criteria

- Targeted Location
  - High fiscal stress or high cost of doing business
  - Focused geographic area

“If the state funds locally targeted incentives, the state is merely spending money to move tax-paying firms from one place to another.” (Peters and Fisher, 2004)

# Best Practices: Successful Criteria

- Targeted Population

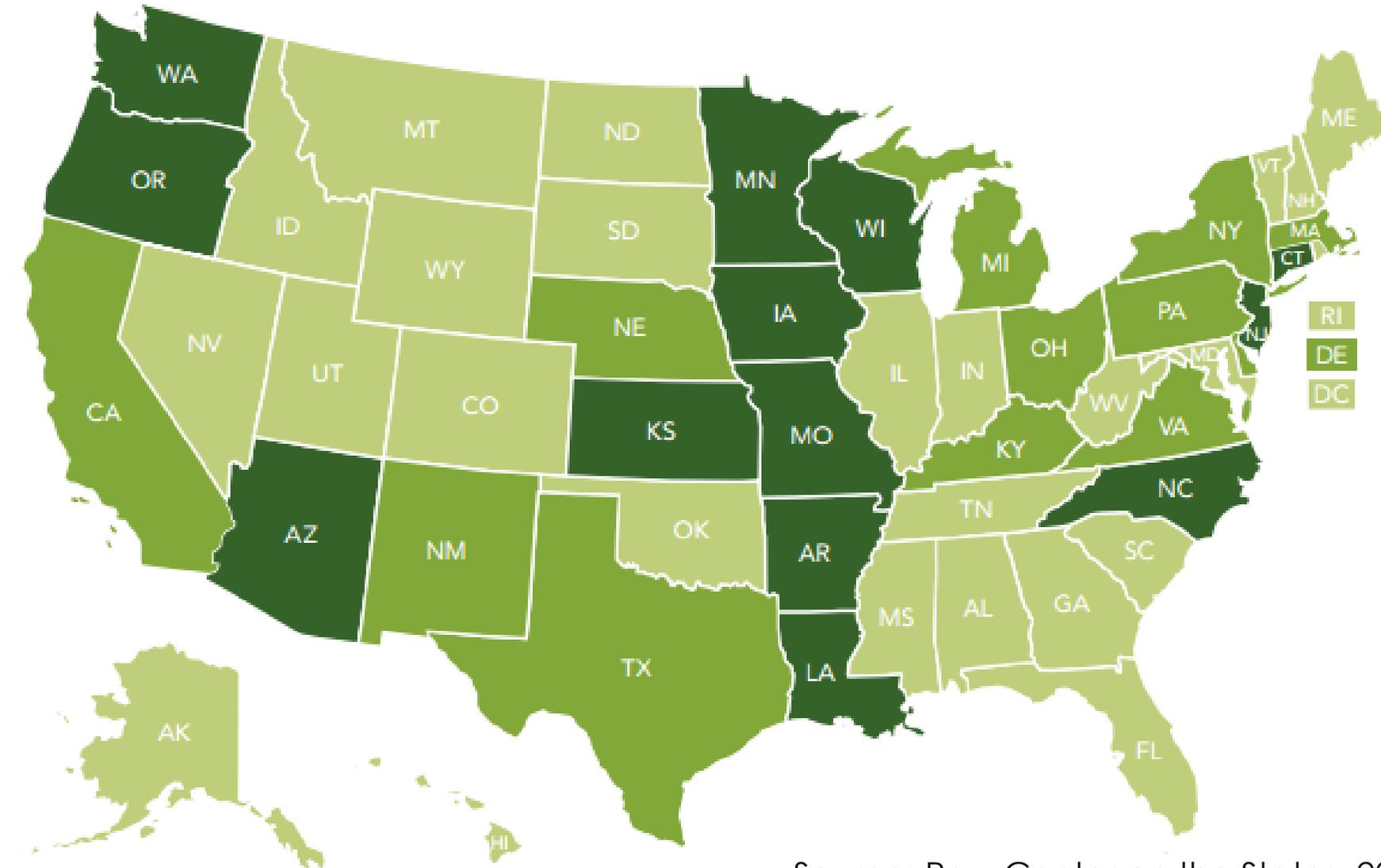
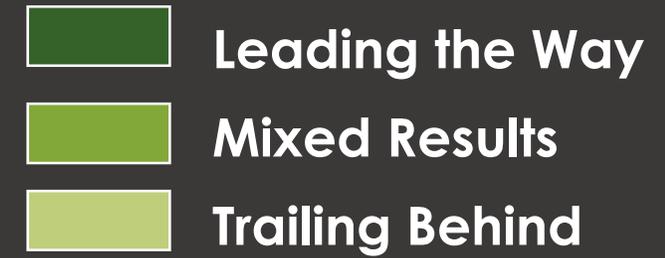
“For state and local incentive competition to benefit the nation as a whole, the benefits to communities gaining jobs must exceed the losses to the communities that would otherwise have had those jobs. This will occur only to the extent that incentives are targeted at poorer populations.” (Peters and Fisher, 2004)

# Best Practices: Successful Criteria

- Targeted Incentive Type

“An emerging body of evidence suggests that ‘entrepreneurial’ ED strategies, which focus on nurturing new high technology and other high-growth businesses, may be more effective in fostering sustainable economic growth.” (Hart, 2007)

# Best Practices: Evaluation



1. Inform policy choices
2. Include all major tax incentives
3. Measure economic impact
4. Draw clear conclusions

Source: Pew Center on the States, 2012

# Best Practices: Evaluation

- Make a Plan
  - Identify measurable goals for each incentive
  - Access relevant and reliable data
- Measure Impact
  - Consider cause and effect
  - Consider net effects
  - Compare to other incentive options
- Inform Policy Choices
  - Identify opportunities for improvement
  - Regular review of incentives by policy makers

# Evaluation of Incentives in Utah

- Enterprize Zones
  - Annual Reporting of credits and jobs by zone
- EDTIF
  - Monthly and annual reporting of new agreements
  - Total Credits, Estimated Revenues, Estimated Jobs
  - 3 year audit cycle
- IAF
  - Annual determination of targeted industries

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