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# Amazon HQ2: Cities Should Stop Wasting Money on Corporate Handouts

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Amazon recently announced plans to open a second world headquarters, and with the company asking for bids by October 19, more than 100 cities [1] are climbing over each other, shouting "Take my money!" They shouldn't. It's time to end the self-destructive subsidy arms race among our cities and states.

And the conclusion of a real arms race can be our guide. Ronald Reagan, the quintessential cold warrior, took a bold step toward disarmament thirty-five springs ago, calling for what became the Strategic Arms Reduction (or "START") Treaty that eliminated 80 percent of the world's strategic nuclear weapons. Mutual disarmament not only made the world a safer place, it tempered an increasingly costly arms race that benefited no one.

Much like the Cold War arms race, there is an enormous cost to the mutually destructive spending by cities and states: We're wasting $70 billion [2] annually on corporate handouts rather than supporting genuine public goods and services or lowering tax rates for everyone. These incentives take many forms: cash payments, subsidies disguised as tax relief, targeted tax privileges, or in-kind gifts such as land, water or even factories. Adding insult to injury, these corporate privileges can throttle the productivity and dynamism of the American economy.

Mississippi fired the first shots when it began offering incentives to favored firms in the 1930s. The state remains the poorest in the union. But that hasn't deterred others from piling into this self-destructive conflict. And lately it has been heating up. In addition to the Amazon arms race, this summer Wisconsin legislators approved one of the largest targeted incentives in U.S. history, agreeing to pay Foxconn Technology Group $3 billion [3] over the next 15 years in return for building a liquid crystal display plant in the state.

The academic research [4] is exceedingly clear: Targeted incentives do not benefit the communities that offer them. The biggest winners in this competition between governments are state-jumping companies and the politicians who lavish them with taxpayer money.

One reason such incentives fail to deliver for the public is their costs: In lieu of its $3 billion gift to one firm, Wisconsin could have cut its corporate income tax rate — paid by thousands of Wisconsin companies — by 21 percent [5]. Subsidies encourage waste and bad decisions, leading firms to gamble public money on risky ventures that they wouldn't otherwise pursue. They also motivate firms to court policymakers rather than consumers. And they protect established companies from competition, limiting economic growth and entrepreneurial dynamism.

Though corporate handouts make no economic sense, they make political sense. The primary beneficiaries are few in number and highly politically organized. A politician can stand in front of a subsidized factory, cut a ribbon and take credit for all the jobs created there, whether they would have been created with or without the subsidy. What the politicians rarely tell you — and what the public never sees — are the jobs destroyed by the taxes that fund these subsides.

Some economic development officials understand this, wishing there was a way out of this vicious cycle [6]. Sean O'Byrne, an economic development official in Kansas City, told *The New York Times* that "It sounds like I'm talking myself out of a job, but there ought to be a law against what I'm doing." Similarly, San Jose Mayor Sam Liccardo is refusing to play [7]the game with Amazon. He thinks "cutting special deals with individual companies isn't the right strategy." But how can they resist it? Policymakers are in a Catch-22. Forswearing subsidies is like unilaterally disarming in a Cold War — it would be political suicide. Most, like Los Angeles Mayor Eric Garcetti [8], "welcome the opportunity to compete for this remarkable investment" in Amazon.

That is why we need an Economic START Treaty — an interstate compact in which states agree to mutually disarm in the subsidy war.

States would agree that all firms within their borders face the same tax burden. No targeted privileges or punishments. States could better prioritize the interests of the people without the leverage that these companies currently have over them. More importantly, a no-subsidies treaty would enshrine equal treatment under the law and encourage states to compete by simply offering the best tax and regulatory environments for all firms.

If the world's superpowers were able to step back from the brink of annihilation and save their citizens billions of dollars in defense spending, surely U.S. states can agree to mutually halt the subsidy war. A Subsidy Termination Agreement to Return Tax dollars would be a good START.

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# Want to Attract the Next HQ2? Become the Best Place to Live

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**Authors:** Michael D. Farren, Andrea O'Sullivan

American cities spent the last year one-upping each other's grand HQ2 subsidy packages. In the end, Amazon passed over the many smaller-sized hopefuls competing primarily on tax goodies and, instead, went with the obvious choices: New York and Washington, D.C., plus a smaller operation center in Nashville.

There is a lesson here. Many people may think taxpayer-funded incentives give an edge in attracting business. They don't [1]. Instead, companies like Amazon mostly look for (1) a skilled workforce and (2) a pleasant place where their workers would want to live [2].

Amazon's leadership was clear about this. As one executive put it [3]: "We really prioritized where we could get great talent. When you think about Northern Virginia and New York, they're just great places where people want to live and also great places where we can find people who will add to the invention culture at Amazon."

In other words: They were looking for a major city with established tech talent all along [4].

It's not that Amazon ignored the subsidies. They are quite happy about the billions in incentives [5] to move to Queens and Crystal City.

But Amazon probably had a general idea of where it was going to move a long time ago. Perhaps this included a handful of other candidates [6]; places like Austin, or Boston, or Toronto. Amazon maintained the illusion of competition so that cities would offer more incentives than they otherwise would.

The subsidies are a sweetener, not a deciding factor. If they were, Amazon would have chosen Newark, NJ or Montgomery County, MD as its new home. These locations offered over $7 billion in incentives each, and are barely ten miles from the chosen sites in New York and Arlington, VA.

Nor were subsidies the deciding factor for Amazon's Nashville investment, as Music City offered a comparatively measly package. Still, Nashville needn't have offered anything at all, because it was already a naturally attractive candidate.

The question of how cities can attract top firms is really: how to attract top talent. And how can cities attract top talent? They can become desirable places to live.

Everyone has their own idea of what a great city looks like, but most people would probably agree that cities should be safe, accessible, energetic, and interesting. This requires policies and community spaces that foster greater interaction among people. But despite generally good intentions, precious few [7] planners pursue policies that make their cities more livable, and therefore lovable.

Here's what cities need: thoughtful urbanism, innovation in public spaces, and affordability.

Our colleagues Emily Hamilton and Salim Furth think a lot about how towns can improve their urban form [8]. Part of our modern problem is that American cities are generally designed to accommodate the car while other modes of transportation, like walking or biking, were an afterthought.

It's natural for cities' growth to be influenced by the predominant mode of transportation—during the streetcar era, cities developed along a "string of pearls" model. But the status quo struggles to accommodate changing transportation preferences.

Government policies should allow other transportation options to use public thoroughfares. Bike lanes and a growing focus on "walkability" are improvements in transportation diversity. The key is to avoid favoring one particular transportation choice over others. This allows cities to develop naturally, rather than be constrained by the thinking of past generations.

Many emergent transportation technologies don't fit into our established public thoroughfare infrastructure.

Our colleague Jennifer Huddleston Skees has written about how entrepreneurs are developing solutions to the so-called "last mile problem [9]," or transit needs that are too short to justify a car, bus, or subway ride but too long for a walk. Low-speed vehicles like electric scooters and bicycle shares are promising improvisations.

Another colleague of ours, Brent Skorup, is looking ahead to the Jetsons-like vertical takeoff and landing (VTOL) vehicles [10] that may soon leave science fiction and become reality [11].

Cities can either preemptively clamp down on innovation, or foster it by allowing travelers to use new technologies through re-designed public thoroughfares that work for all kinds of transportation options.

And going even deeper, it's important for planners and city leaders to update their ideas about how we access the public thoroughfare [12] and how different modes of traffic interact with each other [13].

Furthermore, cities should relax strict zoning laws to encourage more varied and organic growth. Mixed-use development is more efficient, more interesting, and naturally more walkable.

Allowing more flexibility in the use of space would also create greater demand for the kind of transportation innovations already discussed. This means less sprawl, and therefore more lively communal activity.

When city and state policies allow for flexibility—meaning that they're focused on changing human needs over time rather than one particular approved model of how to live—unexpected innovations can spring forth.

Think about the food truck phenomenon [14]. By-the-book city planners could not have anticipated that professionals would hunt down and wait in long lines to eat Korean BBQ tacos from kitchens on wheels. But when people are able—legally or otherwise—to find new and better ways of doing things, wonderful improvisations emerge. The result is a cool place where educated professionals want to live.

This kind of "innovation in public spaces" can be extended to many parts of the urban experience. Importantly, this includes policies that encourage innovation in education. Housing decisions are too often driven by school quality. Families end up buying more expensive housing to access good schools, or pay the difference for their children to attend costly private schools.

Salim Furth points out [15] that a kind of paralyzing alliance [16] between zoning boards and school boards is responsible for the sclerotic state of many neighborhoods. They may resist reforms to protect property values or educational status quos, to the ultimate detriment of dynamism and new entrants.

State and local governments that work together to offer more choice in education, like online schooling or vocational apprenticeships, will attract and develop to a high-quality workforce.

Cities also need to think holistically. It's not enough to tailor your town to the upper crust—affordability is critical. Allowing for mixed-use development, better access to multiple modes of transportation, and greater choice in education makes city living more affordable for more people.

Affordability is where ambitious cities can really set themselves apart. The big name cities have many amenities by virtue of their age or location. But they have become incredibly expensive.

A smaller vibrant town that offers young professionals access to technological and social innovations and the ability to affordably raise a family could be attractive to businesses. They won't have to pay their employees a big city salary to enjoy a big city standard of living. And employees benefit from less of the stress of big city life.

What our dynamic workforce wants is dynamic diversity, meaning a happy blend of people, land usage, and policies that allow people and families to adapt to changing circumstances. Or as Charles Murray characterizes [17], people want to live in the kind of eclectic neighborhoods that were once synonymous with the American experience. The dentist lives down the block from the grocer, who both take their children to play at the corner park and buy yogurt at the neighborhood creamery on Saturday.

Cities can't just will themselves into a New York or a San Francisco. But they can foster an open and affordable urbanism that draws young professionals—one that is as unique as the natural evolution of that particular city. Along with smart tax and spending policies, urban innovation in land use, public spaces, and education can build the kind of city that companies want to move to.

Best of all? These policies benefit everyone, not just the corporation of the week sniffing around for a new home. A vibrant, open, and accessible town is something all residents will enjoy for years to come.

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