Policy Brief No. 35
April 2017

State Economic Development Policy Falls Short

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Introduction

Targeted industry incentives have played a prominent role in the economic development strategies of state governments for decades. In the late 1970s and 1980s, enterprise zones and tax incentives were seen as an appealing "market-oriented" alternative to New Deal and Great Society spending programs since they rely on incentives rather than mandates to spur economic development.[1] By 2012, states spent or forewent tax revenue worth an estimated $80.4 billion annually for these programs.[2] Florida alone spends over $1 billion annually on such programs.

Unfortunately, numerous studies have found targeted tax incentive programs have no significant impact on job creation.[3] The consensus among academic economists is that tax incentives for specific businesses or industries do not significantly improve the state and local economies, and may in fact diminish national growth.[4] Economic development policy should be business-friendly, but targeted industry incentives run the risk of encouraging cronyism, reducing tax revenue, and misallocating scarce resources.

Florida's Economic Development Policy

Multiple government entities administer Florida's business incentive programs. The public-private partnership Enterprise Florida Inc. (EFI) markets programs to businesses, and assists companies in submitting applications for incentives. EFI recommends projects to the Department of Economic Opportunity (DEO), which administers, reviews, and approves incentive requests. The Department of Revenue provides DEO with data on applicants' financial information and eligibility, and the Department of Financial Services provides a final review before issuing incentive payments.[5]

EFI and DEO are the primary players in Florida's economic development system. DEO was created in 2011 to streamline economic, workforce, and community development efforts, which were previously carried out by multiple state agencies and departments. However, duplication of duties persists. DEO and EFI both partner with local and regional economic development organizations to administer similar programs devoted to small businesses and the military and defense communities. Other organizational problems plague EFI and DEO. Businesses have complained that the process for receiving incentive payments is confusing. Between 2014 and 2016, the average length of time between claims submission and incentive payment to businesses was 16 months.[6] Furthermore, EFI is statutorily required to match public funding with private funding, but has not achieved that goal since its inception in 1996.

Meanwhile, the multi-departmental application and approval process provides well-connected businesses opportunities to game the system. Several EFI board member companies are also EFI vendors, while others are direct recipients of targeted incentives. Board members could potentially direct incentives to their own companies. A 2013 report by Integrity Florida cited these and other apparent conflicts of interest at Enterprise Florida which may have inappropriately influenced its recommendations.[7]

To address these and other issues, EFI is shifting several of its programs to DEO. The State Small Business Development Credit Initiative and various military-related grants are currently being transitioned. However, some of EFI's higher-profile initiatives (including the Florida Sports Foundation, VISIT FLORIDA, and several small and minority business loan programs) require legislation before their management can be handed off to DEO. Thus far EFI has eliminated 26 positions and reduced its operating, travel, and other expenses, saving $2.1 million.

Since 1982, 46 different government programs in Florida have awarded firms with incentives.[8] Until 2015, credits and refunds against taxes on corporate income, sales, property, and building material or energy purchases were awarded to companies that located or hired within one of the state's 65 enterprise zones, specific geographic areas targeted for economic revitalization. This program was intended to shift economic activity from one region within the state to another, rather than attract businesses from out of state, but nonetheless was the first business incentive program adopted in Florida. The enterprise zone program expired on December 31, 2015, but businesses that claimed incentives before that date may continue to receive payments until 2018.[9] A sales tax refund program created in 2010 subsidized film productions, but the legislature ceased funding this program in June 2016. A host of other incentive programs remain, including the Capital Investment Tax Credit Program,[10] the Qualified Targeted Industry Incentive,[11] the Brownfield Redevelopment Bonus Refund Program,[12] the High Impact Performance Incentive Grant,[13] the Quick Action Closing Fund Program,[14] and the Innovation Incentive Program.[15] The stated aim of all these programs is to create jobs.

Incentives come in many forms, including corporate income tax credits, property tax abatements, sales tax refunds, and payroll tax refunds among others. Most involve a performance-based contract between DEO and particular businesses stipulating how much money will be awarded after a company meets certain milestones (creating a certain number of jobs or investing a certain amount of money in capital equipment, for instance). Some programs are funded solely by the state, but most are also subsidized by the county and municipal governments that host tax incentive recipients.

Each program rewards different kinds of economic activities. Incentive programs have subsidized everything from music video productions to solar panel installation, biomedical research facilities to hardware stores. Enterprise Florida and DEO periodically designate "high impact" industries to be targeted for certain incentive programs. Targeted industries have included aviation, defense, financial services, and biomedical.[16]

Tax Incentives are Wasteful and Ineffective

In 2016, the legislature appropriated $1.08 billion to DEO and EFI.[17] DEO received $1.05 billion and EFI received $25 million. Since 2012, DEO and EFI have received more than $1 billion annually. Projects with incentive payments in fiscal years 2012-13 through 2014-15 have received $597.1 million in state funds.[18]

For all this spending, Florida experienced little growth in targeted industries. A 2016 analysis by Florida's Office of Public Policy Analysis and Government Accountability (OPPAGA) looked at growth in six targeted industries from 2006 to 2015. Florida actually experienced negative employment growth in all but two industries.[19] Florida lagged behind other states in terms of per-capita income and gross state product. A previous OPPAGA study revealed that businesses receiving incentives typically employed fewer people and spent less than national and regional averages for their industries.[20] Enterprise Florida reported that only half the targeted number of jobs had been created by companies receiving incentives.[21] According to the Office of Economic and Demographic Research, 70 percent of state incentive programs lost money in the last three years.[22]

This poor performance resembles that of most other states' incentive programs. Although some economic impact studies have shown a positive return on investment for some programs, most of the more rigorous peer-reviewed academic articles find that tax incentives are ineffective at increasing employment and influencing business-location decisions.[23] A survey of economic experts by the University of Chicago's Booth School of Business found respondents were uncertain whether tax incentives increase domestic growth, but a majority were confident that tax incentives diminish national growth.[24] George Mason University economists Chris Coyne and Lotta Moberg pointed out that awarding tax incentives to particular industries or businesses risks a major misallocation of resources, often into the hands of special interests.[25]

Even when programs are perfectly benevolent or absent of any cronyism, government officials inevitably make mistakes in deciding which industries will fare best or employ the most residents. Enterprise Florida's own track record confirms this observation, with numerous incentives awarded to projects that never happened.[26]

Many of the businesses that actually did create the jobs they promised would have located in Florida anyway. Annual surveys by *Area Development* magazine ask business owners what factors they consider in deciding where to locate.[27] Respondents consistently rank state and local tax incentives below other factors like production costs, availability of skilled labor, proximity to major markets, and transportation costs. Since businesses care more about these factors, incentives can do little to influence their decisions.

Regardless, states persist in their attempts to attract out-of-state businesses using these targeted incentive programs. For instance, multiple states engaged in a bidding war for a Tesla car factory in 2014. Each wined and dined company executives, offering generous incentive packages until Tesla finally chose Nevada.[28] Governor Rick Scott sought to attract West Coast shipping companies to use Florida ports, hoping that tax subsidies could trump geography and the cost of transporttation.[29] Employment in wholesale trade actually declined 3.7 percent between 2006 and 2015. A $1 million contract between VISIT FLORIDA (then an office within EFI) and the rapper Pitbull to produce a music video for his song “Sexy Beaches” was intended to increase tourism.[30] It’s unclear how many visitors to the Sunshine State are attributable to this music video, if any.

In Orlando, the $350 million incentive package to biomedical research institute Sanford Burnham is a particularly expensive example.[31] In exchange for the subsidy package, Sanford Burnham agreed to create 303 jobs, but only delivered 240. The final cost to taxpayers was $1.4 million per job. Even if jobs subsequently created in the surrounding area are considered due to Sanford Burnham’s presence, the cost exceeds $73,400 per job. Further, these positions may prove short lived as the Sanford Burnham institute intends to close its doors in the near future.

Big-Business Bias

Targeted incentives also systematically discriminate against small businesses. While small businesses generate most of America’s employment,[32] state economic development policy focuses on benefiting well-connected large firms when targeted incentives are used.

A 2016 OPPAGA report noted that small businesses often aren’t eligible for tax incentive programs because of high thresholds set for job creation, wages, and capital investment.[33] A study by the nonprofit policy research center Good Jobs First found that between 2009 and 2013, 89 percent of dollars awarded through Florida’s Qualified Targeted Industry Tax Refund went to big businesses, and 77 percent of incentive deals were made with big businesses.[34] EFI and DEO’s loan programs aimed at small businesses are nominal and ineffective. Since 1996, the Rural Community Development Revolving Loan Fund Program made only 17 loans.[35] Participation in DEO’s other small business and minority loan programs is likewise insignificant.

Since incentives are applied against tax liabilities, and the vast majority of new firms don’t have tax liabilities for years after getting started, incentives do little to spur startups. Startups and small businesses may benefit from government programs that offer marketing and technical assistance,[36] but tax incentives themselves are unlikely to spur new business creation or grow existing businesses.

Florida’s incentives also tend to favor capital spending over labor spending, a common bias among state incentive programs. Tax subsidies doled out through the state’s Capital Investment Tax Credit Program are tied to capital expenditures, and thus allow capital-intensive firms to disproportionately benefit. Companies are incentivized to substitute capital equipment for labor, hampering DEO’s stated goal of increasing employment.[37]

This problem won’t be solved by simply transferring some of EFI’s duties to DEO or cutting EFI’s budget. Such changes are merely cosmetic. A big-business bias is present in most other states’ incentive programs, whether they are managed by a public-private partnership or by a state agency alone.

How would small businesses like to see incentives changed? Respondents to a small business survey conducted by Good Jobs First said that merely reallocating tax incentives away from big business and toward small ones would do less good than funding education and infrastructure, which can actually improve laborers' skill level and attract more out-of-state companies in the long run.[38] Forgoing tax revenue through money-losing targeted incentive programs risks under-funding infrastructure, education, police, and fire protection. These are public services that benefit every business as well as a broad base of Florida's citizenry.

A Different Approach to Economic Development

Floridians should not let crony capitalism and ineffective bureaucracies be major parts of the state's economic development strategy. The notion that government officials can effectively pick winners and losers and increase employment does not stand up against the actual performance of incentive programs. Targeted incentives inherently favor big business, and encourage entrepreneurs to game the political system rather than compete on the quality and price of their goods and services. Such favoritism erodes faith in political institutions over time. Taxpayer money would be better spent on public services, which benefit everyone. Eliminating incentive programs and the bureaucracies that award them will create a more even playing field for business to compete and grow Florida's economy.

About the Author

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About the DeVoe L. Moore Center

The DeVoe L. Moore Center at Florida State University is an interdisciplinary unit in the College of Social Sciences and Public Policy that is dedicated to increasing knowledge and public understanding about the role of government in a market economy. The Center emphasizes the study of how government rules, regulations, and programs affect the economy and individuals, bringing the insights of economics, political science, and public administration to the study of state and local regulations.

Endnotes

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