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Debunked

25 Major Studies Showing Corporate Handouts Do Not Work

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New York State and local governments spend roughly ten billion dollars every year subsidizing corporations and wealthy investors. Unfortunately for New Yorkers, there is overwhelming evidence that government handouts to corporations and industries are a waste of taxpayer funds.

New Yorkers might be surprised that independent researchers and budget experts from coast to coast and the left, right, and center of the political spectrum resoundingly agree that corporate handouts do not work. But that's not what the public hears! The corporations and industries getting massive taxpayer subsidies spend enormous amounts on pseudoscience and lobbying, and giving big campaign contributions to New York's top elected officials.

Reinvent Albany advocates for government decision-making based on facts and good sense. We have compiled 25 of the most important studies done by reputable independent researchers to help our elected officials better understand business subsidies.

The facts are in: taxpayer subsidies to businesses are a bad investment

There is extensive independent research assessing whether subsidies to businesses, often in the form of tax abatements, spur local economic development. Three major approaches have been used to study this question:

- Surveys of businesses examining the influence of state and local policies on investment decisions;
- Case studies assessing how changes in policies might influence behavior, including siting, expansion, or new firm start-up decisions; and
- Econometric analyses that study how state and local policies influence state and local economic growth, as well as firm decisions (Bartik 1991, Lynch 2004).

The evidence from these studies shows that tax incentives and direct subsidies are poor mechanisms for job creation and other economic development indicators. Specifically, these 25 studies show that subsidies have little effect on the number of new firm establishments, job growth, firm location decisions, and overall economic growth. In fact, business subsidies have the opposite effect; they contribute to inequality and poor fiscal health.

1. There is no conclusive evidence from research studies conducted since the mid-1950s to show that business subsidies have an impact on net economic gains.

"New York State Business Tax Credits: Analysis and Evaluation"

Rubin and Boyd (2013) state: "There is … no conclusive evidence from research studies conducted since the mid-1950s to show that business tax incentives have an impact on net economic gains to the states above and beyond the level that would have been attained absent the incentives." Further, there is no evidence that state and local taxes have an impact on business location and expansion decisions.

Their study, which specifically analyzes New York State business tax credits, lists a common set of flaws across all tax credit programs, including those in New York. First, they may reward activity that would have been undertaken even without the credit. Second, they are similar to direct spending programs but are not subject to public scrutiny or legislative oversight. Third, they require no annual appropriation, thus remaining on the budget indefinitely with little or no evaluation of their costs and benefits. Finally, it is difficult to evaluate their impacts on jobs and the economy because information about beneficiaries is so limited, if disclosed at all.

2. IDA-supported projects will happen without IDAs.

"The Effectiveness of Firm-Specific State Tax Incentives in Promoting Economic Development: Evidence from New York State's Industrial Development Agencies"

Lynch et al. (1996) examined the effectiveness of firm-specific business subsidies handed out by Industrial Development Agencies (IDAs), and found that the benefits of IDAs are "questionable," while the costs, in terms of foregone tax revenues, are "clear and substantial." The authors conclude that four types of tax revenues are reduced as a result of IDA activity: personal income tax, property tax, mortgage recording tax, and state and local sales tax revenues. Further, the authors found little evidence that IDA-supported projects would not have taken place in the absence of IDAs. Further, Lynch et al. posit that the reason IDA benefits are unlikely to significantly impact economic growth is because the thousands of firms in the state that do not receive IDA sponsorship end up being harmed by those that do.

3. Business subsidies are not a deciding factor for business location decisions.

"Why Firm-Specific Business Subsidies Don't Work"

Sternberg (1996) examined firm-specific subsidies offered by Industrial Development Agencies (IDAs) in New York. Among his findings, Sternberg notes that “a great deal of evidence shows that incentives are not critical to the decisions of firms to locate in a particular place.” As an alternative to business subsidies, Sternberg suggests that states should redirect economic development funds toward “human resource training programs that build up the competitiveness of the states' firms.” He continues: “[a]fter assessing firms' skill and training gaps, states might want to consider an intensive statewide apprenticeship program, perhaps along a modified German model.”

4. Film tax credits in New York State do not create jobs.

“Do State Corporate Tax Incentives Create Jobs? Quasi-Experimental Evidence from the Entertainment Industry”

Thom (2019) examined film tax credits in five states, including New York. He looked at internal factors, like changes to film tax credit programs and the relationship between labor costs and employment in the industry, but also competitive factors, such as each state’s annual employment change modeled as a function of both their tax expenditure and their tax expenditure in competing areas. After controlling for national changes in film employment and changes in each state’s overall private sector labor force, Thom performed an interrupted time series analysis and concluded that film tax credit “expenditures in New York had no statistically significant relationship with employment.”

5. Businesses get subsidies when they make campaign contributions.

“The Politics of Government Resource Allocation: Evidence from U.S. State Government Awarded Economic Incentives”

Aobdia et al. (2021) find that US state governments give more subsidies to politically-connected firms. In fact, a firm is nearly four times more likely to receive an award, and the award is 63% larger, when they make a campaign contribution to a state politician.

6. Larger campaign contributions are associated with larger subsidy awards.

“The Political Economy of State Economic Development Incentives: A Case of Rent Extraction”

Sobel et al. (2021) explore how offering business subsidies affects campaign contributions and electoral outcomes for politicians. The authors leverage a difference-in-differences design that adjusts for the timing of subsidy awards. They find that when a state starts to offer large business subsidies, "annual campaign contributions increase by approximately 38.4% (or $738,100) in the average state from construction and labor unions, 20.5% (or $158,600) from lobbyists and lawyers who represent large firms in the political process, and 106.8% (or $122,000) from large business advocacy and trade organizations."

7. **Businesses that get subsidies are more likely to engage in corporate misconduct.**

"Government Subsidies and Corporate Misconduct"

Raghunandan (2021), leveraged a nationwide dataset on business subsidies provided by Good Jobs First, a national advocacy group, and found that firms receiving state-level subsidies are more likely to engage in corporate misconduct, reflecting an increase in the underlying rate of misconduct and the fact that states are often lenient when it comes to misconduct enforcement.

8. **The more corrupt a state is, the more subsidies it hands out.**

"Who Offers Tax-Based Business Development Incentives?"

Felix and Hines (2011) examine characteristics of cities and counties that offer business subsidies. Among their findings, they discover that "cities and counties in states with troubled political cultures demonstrate the greatest willingness to offer business development incentives." Specifically, they find that increasing the rate at which government officials are convicted of federal corruption crimes by 1 per 100,000 residents over a 13-year period is associated with a 2.9 percent greater chance that a community will offer business subsidies.

9. **Politicians hand out subsidies because it makes them look like they are getting things done, not because they create jobs.**

"Competing for Global Capital or Local Voters? The Politics of Business Location Incentives"

Jensen et al. (2015) explore how electoral institutions impact business subsidy allocation. Specifically, they study the form of government across municipalities providing business subsidies, and find that municipalities with council-manager

systems (where a city council oversees the general administration of city government, makes budgets and policies, and appoints a professional city manager to carry out operations, as opposed to a mayor-council form, where the mayor is elected separately from the council) provide less generous incentives and have more oversight over their subsidy programs. This is even more pronounced during election years. Their results indicate that electoral pressures, not the effectiveness of subsidies, encourage local executives to "provide overly generous incentives to firms, which is also driven by limited oversight of these programs."

10. **There is no evidence that firm-specific tax incentives increase broader economic growth at the state and local level.**

"Evaluating State and Local Business Incentives"

Slattery and Zidar (2020) evaluate state and local business tax incentives in the U.S. They find no evidence that "firm-specific tax incentives increase broader economic growth at the state and local level." The authors note that, instead, reforms that direct resources to where efficiency and equity gains are largest would likely be a better use of resources.

11. **There is a negative relationship between business subsidies and entrepreneurial activity.**

"Targeted State Economic Development Incentives and Entrepreneurship"

Tuszynski and Standsel (2018) examine the relationship between state business subsidy programs and entrepreneurial activity, measured as total patents per 100,000 people, net new business formation, and sole proprietorship rates (which measures sole proprietorship as a percent of total businesses). After controlling for factors such as the percentage of the population that is foreign born, median age, population density, and percentage of the population that is over 25 with a bachelor's degree, the authors test both contemporaneous and lagged effects of development incentives various measures of entrepreneurship. They find a robustly negative and statistically significant relationship between development incentives and patent activity, and no evidence of a statistically significant relationship between business subsidies and net new business formation and sole proprietorships.

12. **More corporate handouts means worse state fiscal health.**

"You Don't Always Get What You Want: The Effect of Financial Incentives on State Fiscal Health"

McDonald, Decker, and Johnson (2020) find that "when a state uses financial incentives, the fiscal health of the state diminishes." The authors carefully account for different types of government, political party control, economic conditions, and demographics. State fiscal health is defined in terms of dependence on federal intergovernmental revenue, a state's efficiency ratio (a ratio of total expenditures to total revenue), and a state's debt ratio.

13. Business subsidies fuel inequality.

"Chasing Disparity: Economic Development Incentives and Income Inequality in the U.S. States"

Jansa (2021) uses data on business subsidy spending and inequality from 50 states from 1999 through 2014 and finds that increased incentive spending leads to increased inequality. Jansa concludes that business subsidies "serve to redistribute resources to the relatively wealthy and reduce the capacity of the state to redistribute to the relatively poor over the long term."

14. Tax abatements do not help grow the number of businesses.

"The Effect of State Economic Development Incentives on Employment Growth of Establishments"

Gabe and Kraybill (2002) evaluate firm-level tax abatements from a sample of more than 350 firms. The authors asked whether abatements contributed to job growth and whether recipient firms overstated expected employment gains. They find no evidence that the abatements promoted employment growth. They state that abatements "have very little effect on actual growth of establishments." Further, they determine that firms receiving certain tax abatements also overstate the number of jobs they expect to create to a greater extent than firms that do not receive them.

15. Business subsidies do not generate new jobs or other direct economic benefits.

"Striking a Balance: A National Assessment of Economic Development Incentives"

Donegan et al. (2018) compare the performance of firms that received subsidies against a group of firms who did not receive subsidies. Through a difference-in-differences approach, they conclude that "[w]hen we examine the overall effectiveness of state incentive grants on firm-level performance, we find little

evidence that they generate new jobs or other direct economic benefits to the states that employ them."

16. Business subsidies do not attract new businesses, create jobs, or enhance state economic performance.

"How State and Local Taxes and Services Affect Economic Development"

In his review of survey and econometric studies concerning the effectiveness of business subsidies, Lynch (2004) finds that there is near unanimity in concluding that "state and local tax incentives fail to attract a significant number of new businesses, create numerous jobs, or substantially enhance state economic performance." This study shows that tax cuts and incentives do not create jobs in a cost-effective manner and further, that spending on state and local services does not undermine growth.

17. Business subsidies do not impact firm expansion.

"Job Creation and Firm-Specific Location Incentives"

Jensen (2017) studies a state subsidy program in Kansas, Promoting Employment Across Kansas (PEAK). Jensen creates a control group for each firm that received a PEAK subsidy and then compares employment generation between the two groups. Jensen additionally surveys managers about the impact of the PEAK program on firm decisions. His analysis concludes that the PEAK program, while popular, is ineffective. He says that his findings "indicate that incentive programmes have no discernible impact on firm expansion, measured by job creation."

18. Businesses will invest without subsidies.

"Bargaining and the Effectiveness of Economic Development Incentives: An Evaluation of the Texas Chapter 313 Program"

Jensen (2017) examines the same question: do business incentives actually influence firm decisions? By focusing on a single business subsidy program in Texas, Jensen documents whether firms receiving a subsidy would have stayed in state regardless of subsidies. In many cases, firms openly indicated that they were not considering any locations outside the state, while others had already started facility construction before even applying for the subsidy. Jensen concludes that "only 15% of the firms…would have invested in another state without this incentive."

19. There is little evidence that economic development subsidies help municipalities recover from crises.

"Did Incentives Help Municipalities Recover from the Great Recession? Evidence from Midwestern Cities"

Drucker, Kim, and Weber (2019) study whether subsidies helped municipalities recover from the Great Recession. Using a unique dataset that combines data on tax increment financing districts and tax abatements together with socioeconomic, geographic, fiscal, and spatial competitive characteristics for six municipalities in Illinois, Michigan, and Wisconsin, the authors measure employment growth, establishment formation, and business relocation. They "find little evidence that economic development subsidies helped municipalities recover from the crisis."

20. Business subsidies do not create jobs for existing residents.

"Making Sense of Incentives: Taming Business Incentives to Promote Prosperity"

When it comes to who gets jobs created by firms receiving subsidies, a significant portion do not serve existing residents. According to Bartik (2019), for every 10 jobs created, four jobs go to in-migrants in the short run. After 5-6 years, that portion shifts, and for every 10 new jobs, 7-9 jobs go to in-migrants. This pattern persists through at least 15-20 years after a firm has received subsidies, suggesting that firm subsidies might do little for existing residents of any state or locality.

21. Business subsidies do not influence firm decisions.

"Who Benefits from State and Local Economic Development Policies?"

Bartik (1991) highlights the complexity of business location decision-making, noting that businesses are concerned with more than just maximizing profits. Most studies ignore other factors that might influence business decision-making processes. These studies also often assume that profits are heavily impacted by state and local tax policies. Other factors that should be considered include existing durable capital investments, wages, and public services.

22. Businesses care more about skilled labor than business subsidies.

"Tax Incentives and Business Climate"

Jolley et al. (2015) survey North Carolina firms that received subsidies and those that did not. Both groups report that the availability of skilled labor is the primary factor influencing business climate. Further, contrary to the belief that tax credits motivate firm location decisions, only 30% of executives at companies receiving subsidies were actually aware that their company received a subsidy.

23. Business subsidies impact a firm's decision-making at best 2% of the time, and at most 25% of the time.

"'But For' Percentages for Economic Development Incentives: What Percentage Estimates are Plausible Based on the Research Literature?"

A 2018 meta-analysis by Bartik reviews research on the effectiveness of local business subsidies, including grants provided by state or local governments to individual firms. Based on 30 studies, the author derives 34 estimates of what proportion of business location, expansion, or retention decisions would not have occurred "but for" the incentive. He concludes that the average incentive package might tip somewhere between 2 and 25 percent of business location/expansion/retention decisions, which means that for at least 75 percent of firms receiving subsidies, the firm would have made a similar decision to locate, expand, or remain in a place without the incentive. These findings are consistent with other studies examining the effects of state and local business taxes, as well as studies examining the impacts of business subsidies in foreign countries.

24. Business subsidies do not attract industry.

"Geographic Redistribution of US Manufacturing and the Role of State Development Policy"

Lee (2008) considers the relationship between subsidies and the relocation of existing firms. Using confidential establishment level data from the US Census Longitudinal Research Database (LRD), Lee documents the patterns of plant entry, exit, and relocation among manufacturing facilities in the United States from 1972 to 1992. The author concludes that "the results of this study support previous findings that the use of public funds for tax incentives to attract large industrial plants is not very effective."

25. Businesses challenge FOIL requests when they do not deliver on their promised benefits.

"Who's Afraid of Sunlight? Explaining Opposition to Transparency in Economic Development"

Jensen and Thrall (2021) examine legal challenges to public records requests for deal-specific, company-specific information in a Texas discretionary business subsidy program. They focus on two potential explanations: 1) firms may be more likely to challenge a request if they were subject to clawback provisions for noncompliance, and 2) they renegotiated subsidy contracts to reduce or delay job commitments (and thus avoid clawbacks). They find that the latter case is more likely and conclude that "a company is more likely to challenge a formal public records request if it has renegotiated the terms of the award to reduce its job-creation obligations." This finding highlights the importance of transparency in business subsidy transactions.

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