

Economic Development and Rotary's Four-Way Test

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About Me

- 20+ years in “private sector”
- Worked with DDAs, CVBs, real estate developers, trade associations, manufacturers, etc.



About Me



Media Coverage

LAS VEGAS
REVIEW-JOURNAL **ST. LOUIS POST-DISPATCH**

PIONEER PRESS The News&Observer **reason**

CRAIN'S THE TENNESSEAN TIMES UNION
CHICAGO BUSINESS.

Newsweek THE PLAIN DEALER **Journal**
PROVIDENCE

The Detroit News **Billings Gazette** **taxnotes**

BP Baseball Prospectus **SITE** CITY THE PROBLEM WITH JON STEWART **npr**
MAGAZINE

CRAIN'S DETROIT BUSINESS **The Guardian** REUTERS **NATIONAL REVIEW**
The Washington Post

The Des Moines Register **DAILY CALLER** **Newsday**

Automotive News **CRAIN'S** The Center Square REAL CLEAR POLICY **The Atlanta Journal-Constitution**
CLEVELAND BUSINESS

Los Angeles Daily News **Washington Examiner**

The Washington Times **THE INDIANAPOLIS STAR**

THE BUFFALO NEWS **THE BUSINESS JOURNALS** **The American Conservative**

THE HILL **THE KANSAS CITY STAR.**



About the CEA

“Our vision is of a future where free markets and the rule of law create economic opportunity for all, and in which American state and municipal governments efficiently provide essential public services while forswearing corporate welfare and central planning.”

“Our mission is to advance economic opportunity for all by promoting transparency, accountability and free-market-based reform of state and local economic development initiatives across America.”

Economic Development

- **What is it**
- **How we're doing it wrong**
- **What actually works**

Economic Development Goals:

- Growing
- Resilient
- Opportunity
- Inclusive
- Desirable quality of life
- Support public services

Economic Development Subsidies:

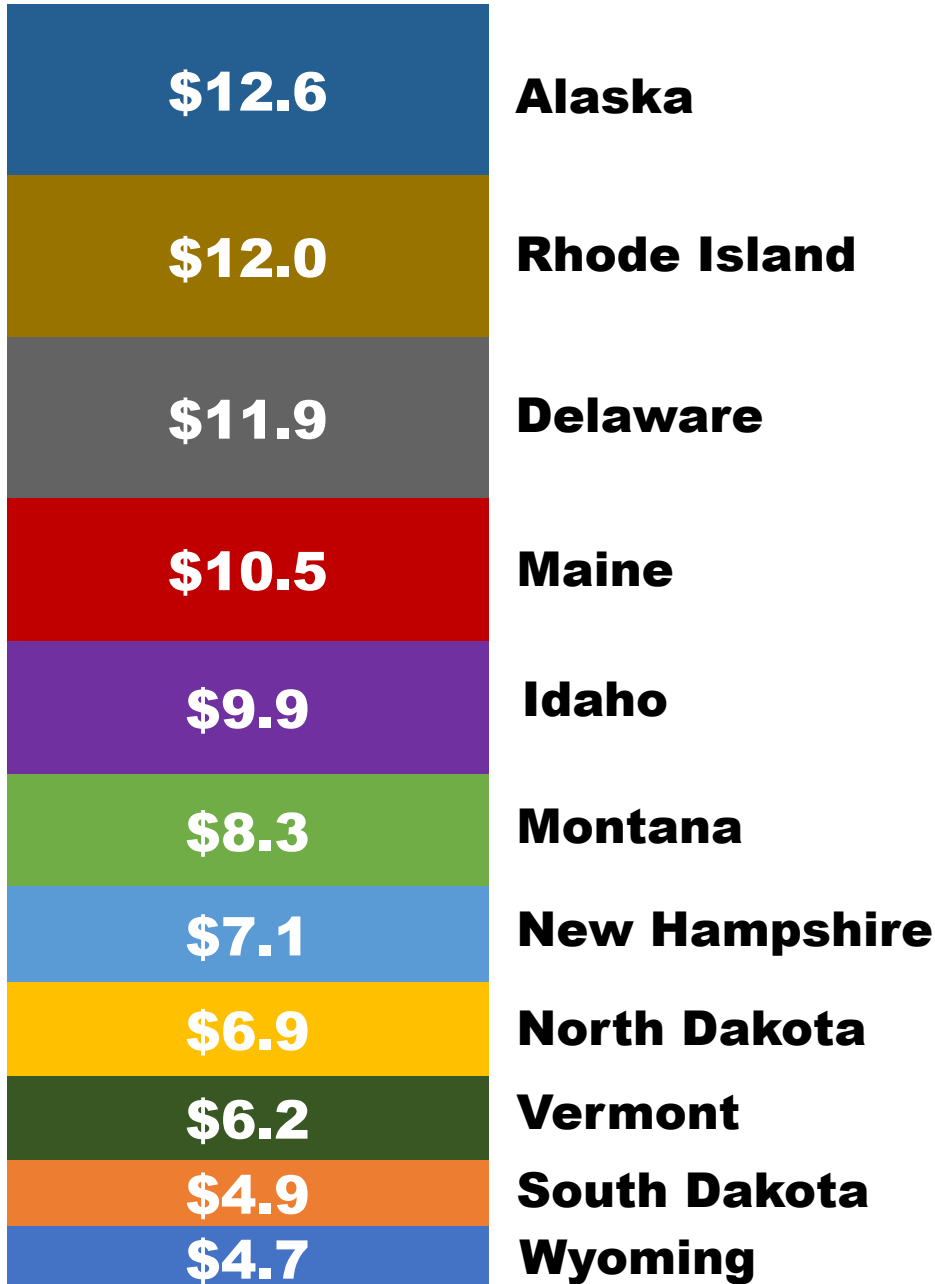
- Tax Credits
- Tax Rebates
- Real & Personal Property Tax Abatements
- Sales Tax Abatements
- Training Grants
- Cash Grants & Forgivable Loans
- Utility Discounts & Rebates
- Real Estate & Infrastructure Grants
- Priority Permitting & Fee Waivers
- Tax Free Zones

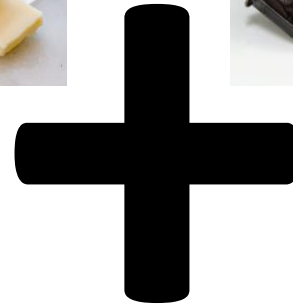


Estimated Annual Cost of State & Local Economic Development Subsidies:

(2019 figures)

\$95 Billion





So what?

Economic Development & The Four-Way Test

- Is it the truth?
- Is it fair to all concerned?
- Will it build goodwill and better friendships?
- Will it be beneficial to all concerned?





Is it the truth?



Economic Development Transparency

1 in 5 Michigan lawmakers have signed pact to keep taxpayer-subsidized projects secret



Beth LeBlanc
The Detroit News

Amazon and Virginia's Agreement Contains 'Heads-Up' Requirement For Public Record Requests

Amazon's agreement with Virginia is legal but has caused concerns over public record transparency and Amazon's ability to silence requests.

New Tennessee bill would shine a light on economic development incentives

Mike Reicher, Nashville Tennessean | Published 5:00 a.m. CT Feb. 6, 2019

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

The New York Times

Cities' Offers for Amazon Base Are Secrets Even to Many City Leaders

NEWS > GOVERNMENT & POLITICS

Watchdog group sues Minnesota over Amazon HQ2 secrecy

Amazon insists on a new factor for cities still in HQ2 headquarters race: Secrecy

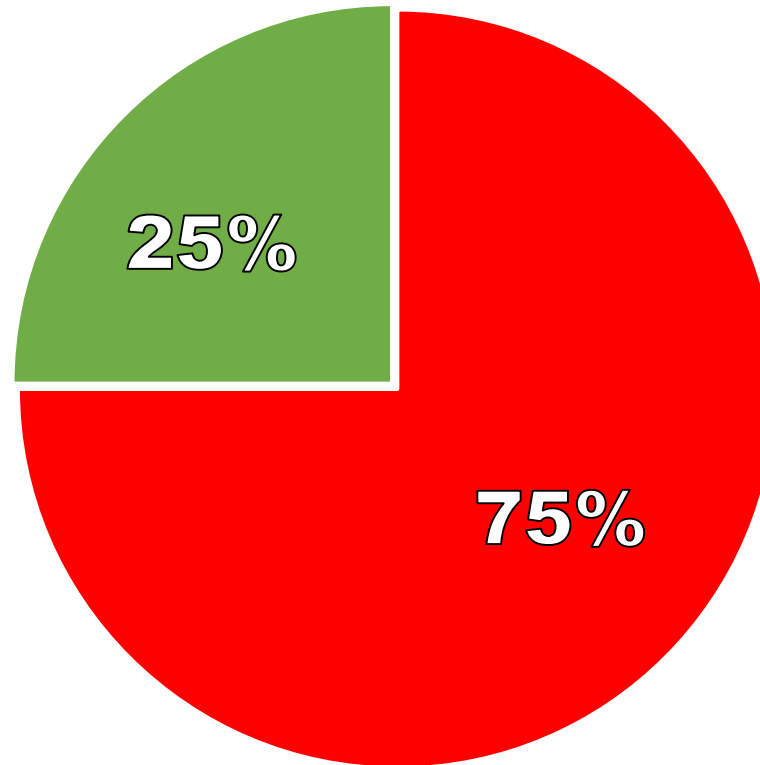
- Cities on the list of 20 finalists for Amazon HQ2 are playing their cards close to the vest as the bidding heats up.
- Amazon has specifically asked cities to transition from what has been a very public process to a more secretive pitch.
- Mayors of Amazon finalists spoke to CNBC at the United States Conference of Mayors.

Eric Rosenbaum | @erprose

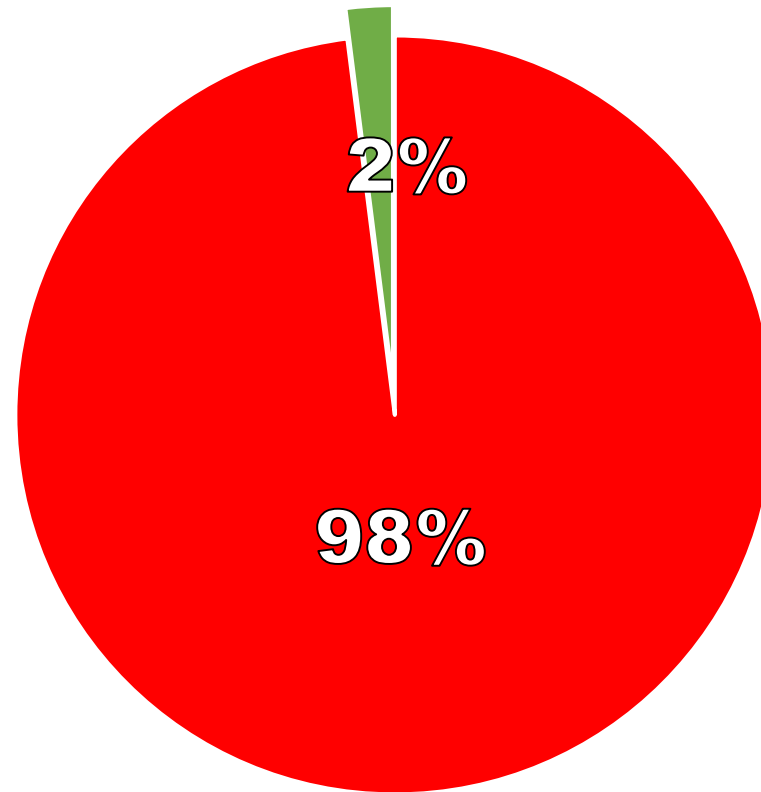
Published 4:55 PM ET Thu, 25 Jan 2018 | Updated 6:44 PM ET Thu, 25 Jan 2018



The “But For” Argument



The “But For” Argument



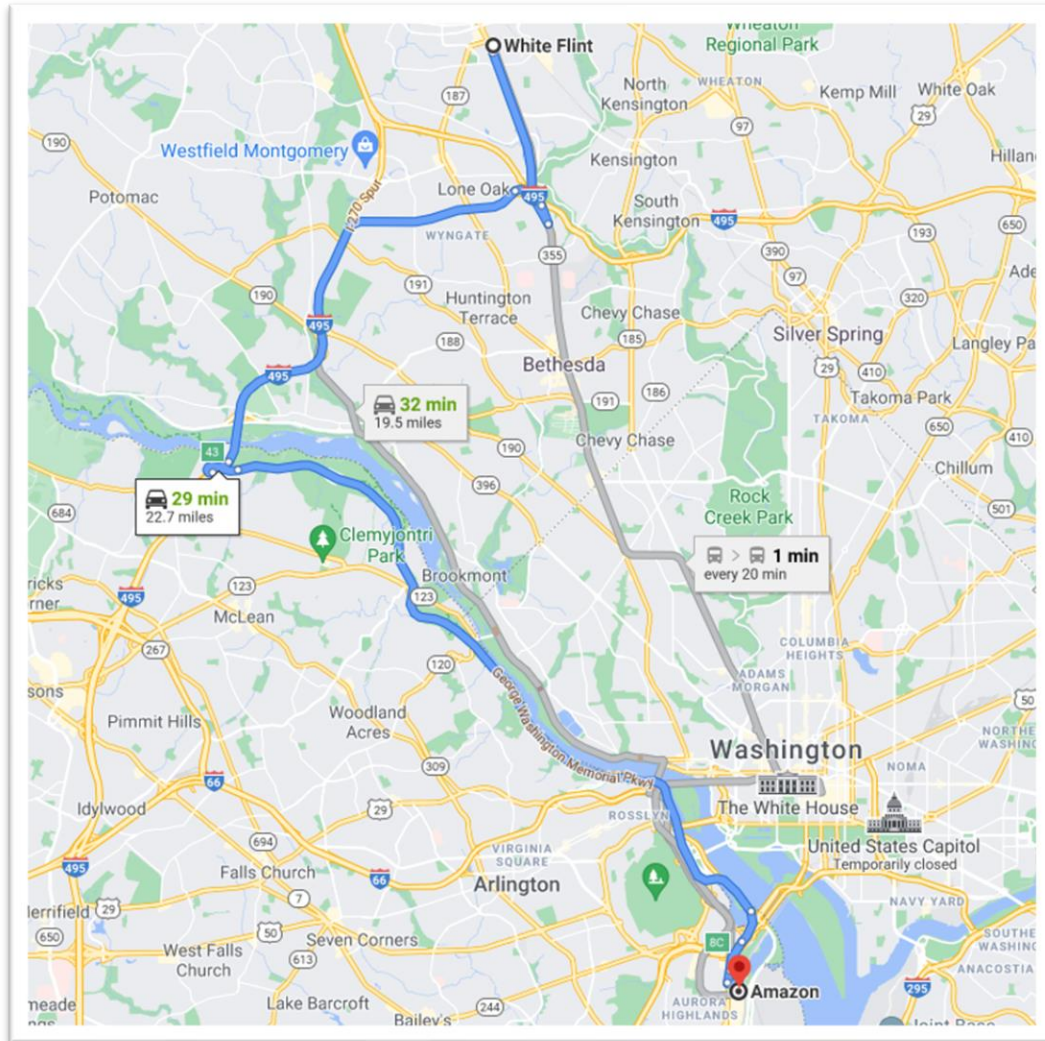
Amazon & HQ2 “but for”

Q: “What role did economic incentives play in Amazon picking these locations?”

A: “Economic incentives were one factor in our decision—but **attracting top talent was the leading driver.**”



“Real-World” Evidence: HQ2



MONEYBOX

Amazon Is Shopping for Office Space in Manhattan, Proving HQ2 Haters Pretty Much Entirely Right

By JORDAN WEISSMANN

MAY 28, 2019 • 12:01 PM

Is it fair to all concerned?





Audience in Detroit before remarks by CEA President John Mozena



Costs From the Future

<u>District Detroit</u>	<u>Dan Gilbert</u>	<u>Fiat Chrysler</u>	<u>Ford Train Station</u>
\$398 Million	Hudson	\$422 Million	\$27 Million
Arena	Building &	\$7.5 Million	from Detroit
Garages	Monroe	loan from	\$207 Million
Google	Block:	Detroit	from State
Little	\$618 Million	\$61 Million in	Ford: \$16
Caesars HQ	2017 Ground	land	<u>Billion</u> in
12/50	Breaking	(\$40 Million	cash
blocks: More		Health	
blight than		Department)	
before.		\$17.5 Million	
		land	
		preparation	

**“We all too often
have socialism
for the rich
and rugged
free market
capitalism
for the poor.”**



**Will it build goodwill and
better friendships?**



Gov. Whitmer Announces Approval for Economic Development Projects Creating or Retaining Nearly 400 Jobs Across the State

Governor Cooper Announces 500 Jobs as Global Battery Component Supplier Selects Brunswick County for First U.S. Plant

Governor Announces Investment Creating 31 New Jobs

Governor Mills Announces \$6 Million Maine Jobs & Recovery Plan Program to Strengthen Sales of Maine Products Across the Country

Governor Ivey Launches The Game Plan, a Legislative Package to Fuel Job Creation and Secure Alabama's Economic Future

Governor Sanders announces \$33M aerospace, defense facility in South Arkansas

Governor Scott Announces Belcan to Add 200 New Jobs in Palm Beach County

Arkansas governor announces 30 jobs, \$33M facility to build Tamir missiles

Governor Hochul Announces Nation's Largest-Ever State Investment in Renewable Energy is Moving Forward in New York

Governor Moore Announces New Conair Distribution Center to Bring 700 New Jobs to Washington County

Governor Ron DeSantis Announces Southwest Florida Created More than 14,000 New Jobs

Governor Tomblin Announces More Williams Jobs in West Virginia

Governor Abbott Lauds Formula 1 As Economic Driver For Texas

Governor Kelly Announces Integra Technologies to Invest \$1.8B, Create Nearly 2,000 Jobs with Wichita Semiconductor Plant

What We Know About Subsidies, Politics Edition:

- 4x more likely to go to companies that make political donations
- 63% larger for political donors
- States where governors are running for reelection are 2x more likely to see a sudden large (20%+) increase in subsidy costs
- Opportunity Zones & similar borders are influenced by political affiliation of local legislators
- Politicians who engage in subsidy deals have higher margins of victory on Election Day
- Politicians who do deals get more political donations, especially from trade unions and business groups
- Governors who “win” 1,000 manufacturing jobs through subsidies can increase independent voter intent by 9.2%

**Is it beneficial to all
concerned?**



What We Know About Subsidies:

- Do not create jobs
 - May even create fewer jobs
 - \$593,913 per job per YEAR in MI
 - Do not grow economies
 - Harm states' long-term fiscal health
 - Artificially increase inequality
 - Do not assist in recovery
 - Discourage entrepreneurship
 - Limit funding for public services
 - Discourage innovation
 - Reduce economic freedom
 - Create a dangerous environment for public corruption
 - Increase burdens on other taxpayers
-

“...[T]he best case is that incentives work about 10% of the time, and are simply a waste of money the other 90%.”

- Peter Fisher, U of Iowa & Alan Peters, U of New South Wales, in the Journal of the American Planning Association



Promises vs. Reality

BUSINESS NEWS JANUARY 30, 2019 / 1:22 AM / 7 DAYS AGO

Exclusive: Foxconn reconsidering plans to make LCD panels at Wisconsin plant

Thousands lost their homes in epic fight to build GM's Detroit plant. Now it's closing.

GM may keep cashing in Michigan tax credits after cuts, closures

'Stop gaslighting us': Protesters accuse Duggan and Ilitches of new District Detroit empty promises

[Amazon](#) | [Business](#) | [Nation & World Politics](#)

Watchdog says HQ2 incentives might be more than double Amazon's estimate as lawmakers try to block them

Amazon HQ2 is not matching the original hype. The economy is partly to blame

Ford to drastically scale back jobs, investment plans for Marshall EV battery plant



The Marshall Example

\$1.77 billion in state subsidies

- **\$630 million for road, infrastructure and site development**
- **\$772 million in tax credits over 15 years**
- **\$120 million “site readiness” grant**
- **\$210 “Michigan Critical Industry Program” grant**
- **\$36 million “Jobs for Michigan Investment Fund Loan Program”**



The Marshall Example

How much is \$1.75 billion?

- Unemployment benefits
- Municipal revenue sharing
- General Fund grants to colleges & universities
- 4X homestead property tax exemptions
- 4X tax credits for low-income & at-risk households (EITC, seniors, veterans, disabilities)
- 35 years of Farmland Preservation Tax Credit



The Marshall Example

- “2,500 good-paying jobs”
- Most workers: \$20/hour
- 1,900 workers making \$41,600/year
- Regional household income: \$53,286/year
- Per-job cost: \$700,000
- 15+ years of plant payroll



The Marshall Example

- Based on a 4.38 multiplier
 - *More realistic: 1.5 to 2.0*
- Now cutting production, jobs & scope by 42%

“If the Ford project had a more typical multiplier—2.5 rather than 4.38—the project’s gross benefits would be less than the incentive costs.”

- Tim Bartik, W.E. Upjohn Institute for Employment Research



Economic Development & The Four-Way Test

~~• Is it the truth?~~

- Bad-faith “but for” requirements & bad transparency

~~• Is it fair to all concerned?~~

- Projects imposed on communities, benefits to big businesses

~~• Will it build goodwill and better friendships?~~

- Politics driving decisions, lobbying wins big money

~~• Will it be beneficial to all concerned?~~

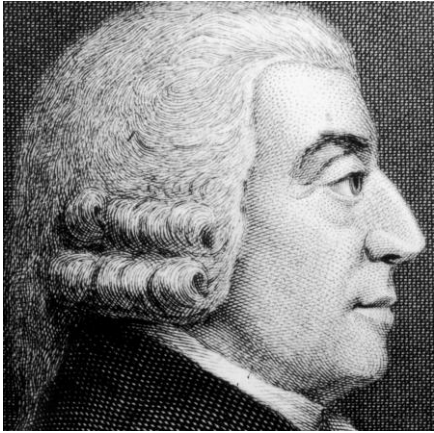
- Ineffective, burdens small businesses, hurts local community services and puts everyone at risk



What
ACTUALLY
works



“An Inquiry into the Nature and Causes of the Wealth of Nations” (and states, and cities)



Adam Smith: “Peace, easy taxes, and a tolerable administration of justice”

- Public safety & private property rights
- Simple and fair tax systems
- Rational and limited regulatory environment

Big vs. Small

“Small establishment births are the single largest determinant of growth in GDP, personal income and employment...the most fruitful policy option available to state governments is to establish and maintain a fruitful environment for new establishment formation.”

- Donald Bruce, Brian Hill, John Deskins & Jonathan Rork, University of Tennessee

Detroit: Starting a Restaurant

- 15 license, permit or registration fees
- \$6,545
- 9 different agencies
- 12 different in-person activities
- 20 forms
- 77 separate steps



★
MOTOWN
MUSEUM

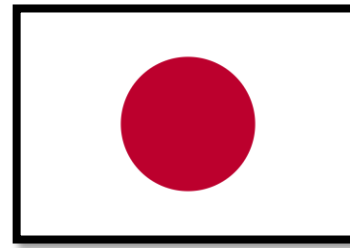
Hitsville U.S.A.





Eaton Rapids

- 5,200 residents
- 540 businesses
- 3.73 mi²
- 13 zoning types



Japan

- 123.3 million residents
- 3.67 million businesses
- 145,936 mi²
- 13 zoning types



“A growing economy requires building new things. If you want economic growth in your community, then you need to make it as simple and cheap as possible for people to build the things they want there.”

- Me

Thank you.

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