

Taming Economic Development Insanity – Compact to Phase-out Corporate Welfare

Does it feel like Iowa government agencies are keeping public money in public hands for the public good? Or does it feel like the public money is being spent on things that are for private gain? Does it seem like something is terribly wrong with how the Iowa taxpayer money is being spent? Does it seem like your values are not reflected in the areas where state government is spending money? Iowa’s political conversation rarely moves beyond the notion that government’s primary responsibility is to grow the economy. Hence we give corporations tax breaks, but slash funding for health care, environmental protections and public interest research at our three state universities.

It seems like there has been a steady race by states and communities to out-compete each other in giving incentives to large corporations, each one giving a greater incentive than their rival community or state. Under the guise of economic development and jobs, huge tax breaks and incentives are given to some of the most financially viable companies in the country, and even in the world. Yet those jobs never seem to materialize. The prosperity that is promised never seems to reach every day Iowans. The promises never result in increased tax revenue that can fund our environmental, public health, and education goals. Our government institutions continue to be starved for funds. What’s more, the tax burden has shifted from the wealthy corporate interests to the middle class, who feel the burden increasing year after year.



We all lose in this game. The environment also loses in this game.

A proposed solution – a compact to phase-out corporate welfare

In 2020, Representative Mary Mascher introduced a bill – HF2095 – that would help restore sanity to all of this. HF2095 would allow Iowa to participate in a multi-state compact concerning the phase-out of corporate welfare.¹ A description of elements of the bill follows.

- Corporate welfare is any company-specific or industry-specific disbursement of funds by a state or local government to a particular company or a particular industry in the form of property, cash, deferred tax liability, or reduced tax liability.
- Iowa can join a compact with other states to phase out corporate welfare.
- Each state that joins the compact is called a member of the compact.
- Each member state would agree to refrain from offering or providing corporate welfare to a company currently located in any other member state.

¹ This bill was based on a bill proposed by Byron Schlomach, Stephen Slivinski, and James Hohman in “Multilateral Disarmament: A State Compact to End Corporate Welfare”, Mackinac Center and 1889 Institute, 2019

- Each member state would also agree to refrain from offering or providing funds for corporate headquarters, manufacturing facilities, office space, or other real estate developments for any company currently located in any other member state if that manufacturing facility, headquarters, or office space will relocate to the member state offering the incentives.
- The chief law enforcement officer of each member state is responsible for enforcing the compact.
- Any taxpaying resident of any member state has standing in the courts of any member state to file suit to ask the court to require the chief law enforcement officer of that member state to enforce the compact.

Other states are engaged

Across the country legislatures have been asked to support similar legislation. Members of the public are disgusted at the tax breaks given to large corporations by cities, counties, and states that are trying to outbid each other in giving incentives in order to win the factory or business to their area.

When a similar bill was introduced in New York, Assemblyman Ron Kim, stated, “I think we have to do whatever we can to stop the economic cage match and race to the bottom so we can foster an open competitive market where small businesses have every opportunity to remain competitive.”² Amazon fueled a bidding war to get the best incentives for a second headquarter facility. Some government entities were willing to give away huge financial incentives to one of the most wealthy and profitable corporations in the world.

A similar bill was also introduced in Connecticut by State Representative Josh Elliott who stated, that the bill is “simply a symbol that people are fed up with giving help to huge conglomerates, while inequality is creating disparities in income that we have never seen before.”³

Forms of corporate welfare

As defined in the legislation introduced by Rep. Mascher, corporate welfare is any company-specific or industry-specific disbursement of funds by a state or local government to a particular company or a particular industry in the form of property, cash, deferred tax liability, or reduced tax liability. Corporate welfare has several forms:



- Economic development grants
- Economic development loans
- Tax credits
- Tax exemptions
- Direct government investments, such as for sports stadiums or hotels connected to convention centers
- Diverting property taxes into bond payments, such as tax-increment financing

Families are stuck paying for corporate welfare

² Elaine S. Povich, “Lawmakers Consider Ending Tax Incentives ‘Cage Match’ as Amazon Exits New York”, The Pew Charitable Trusts, February 15, 2019

³ Elaine S. Povich, “Lawmakers Consider Ending Tax Incentives ‘Cage Match’ as Amazon Exits New York”, The Pew Charitable Trusts, February 15, 2019

If the incentive given to a corporation does not spur greater investments in the community by other businesses and employment, then tax collections are unable to cover the cost of the incentive. The middle class and those businesses who do not qualify for the welfare are stuck paying the bills for government services. Or, the services are cut. Candace Elliott, from Listen Money Matters, reported that the amount of corporate revenue each year would equate to \$6,000 for each American family.⁴

“In 2013 the state of Washington gave an extension on tax breaks to Boeing that will total \$8.7 billion. That is the single biggest state subsidy ever granted to an American company.”⁵ Even that incentive did not stop Boeing from laying off 13,000 jobs in Washington state between 2013 and 2017.⁶ When questioned about this, Washington governor Jay Inslee admitted to Trevor Noah on the Daily Show, “These corporations put a gun to your ribs and say you’re going to lose 20,000 jobs”. He also told Noah, “If you’ve ever been mugged, you understand what it feels like”.⁷



Yet there is little evidence that the subsidies improve the economic outlook for the entire community. A study by Calin Slattery and Owen Zidar concluded:⁸

While we find some evidence of direct employment gains from attracting a firm via incentives, we do not find strong evidence that firm-specific tax incentives increase broader economic growth at the state and local level. We document an average growth of roughly 1,500 jobs within the specific industry of each deal. We don’t, however, see strong evidence of job growth in other industries or an effect on county-wide employment.

We also find a small effect on housing markets, with localities that attract new firms via incentives seeing, on average, a 4% decrease in house prices. This apparent decline in house prices provides some weakly suggestive evidence that the welfare effects of these subsidies might be negative on average.

Taken together, our findings suggest that any argument for the continuation of state and local business tax incentives must demonstrate that these policies improve equity, either by improving economic conditions in the most distressed places or by improving the well-being of underemployed and low-income workers. Whether or not incentives can achieve these goals more effectively than other policies remains an open question.

This study shows that local communities, counties, and states can don’t have to participate in the corporate welfare game. Decision makers do not have to be in the business of picking winners by extending corporate welfare to the selected corporations. That is why it makes sense to create a compact with other states to phase out corporate welfare.

⁴ Candice Elliott, “Corporate Welfare: How Exactly Does It Affect Us As Americans”, Listen Money Matters, January 20, 2020

⁵ Candice Elliott, “Corporate Welfare: How Exactly Does It Affect Us As Americans”, Listen Money Matters, January 20, 2020

⁶ Paul Constant, “It’s time to end corporate welfare. Boeing is exhibit A for why”, Business Insider, January 23, 2020

⁷ Paul Constant, “It’s time to end corporate welfare. Boeing is exhibit A for why”, Business Insider, January 23, 2020

⁸ Cailin Slattery and Owen Zidar, “New data on state and local business tax incentives across the U.S.”, Princeton Economics, January 6, 2020

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