Debate Brief · Targeted Tax Incentives
September 2019

Resolved: The state of North Carolina should offer targeted tax incentives to businesses that relocate major parts of their operations to North Carolina.

"No matter what anyone may say about making the rich and the corporations pay the taxes, in the end they come out of the people who toil. It is your fellow workers who are ordered to work for the Government every time an appropriation bill is passed."
—Calvin Coolidge, To Labor Leaders, September 1, 1914

"Incentives offered by the state/province and local communities to offset initial capital outlay and ongoing operational costs will be significant factors in the decision-making process."
—Amazon.com's "HQ2" Request for Proposal to states, 2018

ABOUT THE COOLIDGE FOUNDATION

The Calvin Coolidge Presidential Foundation is the official foundation dedicated to preserving and promoting the legacy of America's 30th president, Calvin Coolidge, who served in office from August 1923 to March 1929. These values include civility, bipartisanship, and restraint in government, including wise budgeting. The Foundation was formed in 1960 by a group of Coolidge enthusiasts, including John Coolidge, the president's son. It maintains offices at the president's birthplace in Plymouth Notch, Vermont, and in Washington, D.C. The Foundation seeks to increase Americans' understanding of President Coolidge and the values he promoted.

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BACKGROUND

Businesses are the engine of an economy. They bring together raw inputs and resources in the form of capital (i.e., money), equipment, and labor, and create outputs in the form of goods and services that we use every day to make our lives better, longer, easier, and more pleasant. From manufacturers like Ford and Toyota to retailers like Walmart and Target, and from high-tech companies like Apple and IBM to high-touch service providers like your local barber and coffee shop, businesses enrich us by organizing economic activity in ways that are helpful and productive. In short, businesses enable us to propel ourselves forward.

Does it follow, then, that communities acting through their state or local governments ought to take special actions to attract businesses to relocate to their locales? If so, what kinds of actions and incentives should be within bounds? If not, why not?

In the question of whether to do special things to attract business activity, one of the most common approaches taken by those who support such actions is to offer a targeted tax incentive. A targeted tax incentive is any lowering of a tax liability such that a particular business (or a narrow category of businesses that meet certain criteria) owes the government less than it otherwise would have without the incentive. For instance, states and cities might give a particular business permanent or temporary relief on its property tax, payroll tax, or sales tax. It might waive certain regulations that are normally in effect. These incentives are usually not granted to all businesses that are already located in a given state or city—rather, they are given in exchange for moving all or part of a businesses into a new location.

Targeted incentives are popular. Analysts have called them "a fundamental component of local and state economic policy." [1] Looking at tax incentives of all sizes and at all levels of government (i.e., cities, counties, and states), researchers estimate that between $45 billion and $90 billion in incentives are given out each year.[2] Many of these incentives are large. Researchers count that between 1993 and 2014, there were 315 state-level "megadeals," defined as targeted tax incentives worth at least $75 million apiece.[3] In North Carolina during this period, there were 9 such megadeals, worth a total of $1.7 billion.

Economists have become increasingly skeptical that targeted tax incentives really achieve the kind of economic growth that they claim, but political realists insist that without this tool in their "policy toolbox," it is hard for them to deliver jobs and growth to their constituents. Therefore, we ask you to weigh the benefits against the costs and examine: Should the state of North Carolina should offer targeted tax incentives to businesses that relocate?

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[1] Parilla and Liu, "Examining the Local Value of Economic Development Incentives: Evidence from Four U.S. Cities." Brookings Institution. March 2018.

[2] Bartik, Timothy. "'But For' Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?" Upjohn Institute Working Paper 18-289. July 2018.

[3] Calcagno and Hefner. "Targeted Economic Incentives: An Analysis of State Fiscal Policy and Regulatory Conditions." Mercatus Working Paper. 2018. (Based on data from Good Jobs First.)

THE COOLIDGE CONNECTION

As Governor of Massachusetts and later as President of the United States, Calvin Coolidge was a strong supporter of business and free enterprise. He viewed business as a critical contributor to societal progress and prosperity, and was generally of the mind that the government should not hold businesses back through excessive regulation, taxation, or interference. Said Coolidge in a 1925 address to the Chamber of Commerce of the State of New York:

> *"True business represents the mutual organized effort of society to minister to the economic requirements of civilization. It is an effort by which men provide for the material needs of each other. While it is not an end in itself, it is the important means for the attainment of a supreme end. It rests squarely on the law of service. It has for its main reliance truth and faith and justice. In its larger sense it is one of the greatest contributing forces to the moral and spiritual advancement of the race."*[4]

Although Coolidge was a friend to business, that does not mean that he necessarily wished to see businesses being given unfair advantages or privileges. In fact, he expressed concerns about what he saw as a growing practice of businesses turning to government to secure such undue treatment—the kind of activity that today we might call "cronyism." Again, Coolidge:

> *"While there has been in the past and will be in the future a considerable effort in this country of different business interests to attempt to run the Government in such a way as to set up a system of privilege, and while there have been and will be those who are constantly seeking to commit the Government to a policy of infringing upon the domain of private business, both of these efforts have been very largely discredited, and with reasonable vigilance on the part of the people to preserve their freedom do not now appear to be dangerous."*[5]

Coolidge never had to deal directly with the issue of targeted tax incentives. The kinds of incentives that we read about in the newspapers today—property tax abatements for relocating factories, low-interest construction loans for new sports stadiums, tax breaks for hip new startups and tech firms, and the like—became common long after Coolidge's time. We are therefore left wondering: had targeted tax incentives been a more standard part of politicians' repertoire, would Coolidge have used them? We can only speculate.

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[4] Coolidge, Calvin. "Address Before the Chamber of Commerce of the State of New York regarding Government & Business." November 19, 1925.
[55] Ibid.

KEY TERMS

** Note: Many of these tax-related terms can apply both to people and businesses, but since this brief focuses on business taxes, these definitions are oriented toward businesses.*

Tax – A compulsory payment that is demanded by a government (e.g., a state government), typically levied on business profits, or added to the cost of goods, services, and transactions.

Tax Liability – The amount of taxes that a business is obligated to pay.

Tax Incentive – Any lowering of a tax liability such that a business owes the government less than it otherwise would have without the incentive. Common types of tax incentives include tax exemptions, tax deductions, tax credits, and tax abatements. A *targeted* tax incentive is one that is offered to one or several businesses, not to businesses in general.

Tax Credit – An amount of money that a business can apply toward paying a tax liability. (This is like when a person has a "store credit" at a store and goes shopping at that store.)

Tax Abatement – A tax abatement is a reduction of taxes granted by a government, usually in a specific tax category. A common type of tax abatement is a property tax abatement. A business that receives a property tax abatement would be exempt from paying property taxes for a given period of time, but would still have to pay other types of taxes.

Primary Employer – A Primary Employer is a business that produce substantially more goods and services than can be consumed by the local community. Factories are good examples of primary employers. A factory that manufactures refrigerators, airplane engines, or automobiles likely sells its goods to buyers far outside of the local community. Money therefore comes into the local community from far away.

Secondary Employer – A Secondary Employer is a business that mainly serves the local community. Barbers, restaurants, and auto mechanics are good examples of secondary employers. A barber likely sells his service to local buyers. Most of the money that goes to the barber comes from within the local community.

Multiplier Effect – The multiplier effect is an idea in economics that refers to how an amount of spending can appear to multiply as it spreads across the economy. To understand this, first recall that when one business's expenditure is another business's income. The business that receives money goes on to spend more in the economy. That creates new recipients, and so on. In other words, income leads to spending, which leads to more spending. The more people spend, the higher the multiplier. The more people save, the lower the multiplier.

Cronyism – The practice of political figures preferentially awarding special benefits or advantages to businesses with whom they have close personal or professional ties.

AFFIRMATIVE ARGUMENTS

1. Tax incentives for new businesses create well-paying jobs and economic growth.

The purpose of offering targeted tax incentives is to attract new businesses to a state. When a business relocates its operations or opens a new factory, office, or headquarters in a state, this inevitably creates new and often well-paying jobs. To the extent that these jobs are filled by people who live in the state, the introduction of new businesses can reduce unemployment and help lift individuals out of poverty and into a situation where they can be more self-sufficient.[6]

A comprehensive report commissioned by the U.S. Department of Commerce and authored by the National Association of State Development Agencies described the overall justification for targeted tax incentives as follows:

> *"Governors, mayors, legislators, and council members justify these public investments on the grounds that private-sector decisions to invest in a community result in jobs, income, and tax revenues that are essential to the economic and social well-being of a community or state."*[7]

Sometimes the expected benefit is very large. In perhaps the most high-profile example in recent memory, Amazon.com announced in 2017 that it was planning to open a second headquarters (referred to as "HQ2") somewhere in the United States. It put out a "request for proposals" (RFP) that invited cities and states to bid for the chance to become the host for that new part of Amazon's business, and claimed that over the next fifteen years, it would expect to hire as many as 50,000 new full-time employees with an average annual compensation of over $100,000.[8] The projected economic impact was in the billions.

Other times the expected benefit is much smaller, but still substantial. The number of jobs might be in the hundreds, and the company might merely promise that the wages will be at a higher-than-average rate. Lest the introduction of a few dozen or hundred new jobs seem like a small benefit, remember that there is a multiplier effect to such economic activity. Each person that gets a new well-paying job due to the tax incentive also will likely spend much of his or her wages or salary on things like food, housing, and services. Most of that money will be spent in the local economy, which means that everything from nearby restaurants to the local dry cleaner will experience increased business and improved economic health.[9] In this sense, targeted tax incentives benefit nearly everyone in a community, not just the particular businesses that receive the incentives.

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[6] Parilla and Liu, "Examining the Local Value of Economic Development Incentives: Evidence from Four U.S. Cities." Brookings Institution. March 2018.

[7] Poole, et al. "Evaluating Business Development Incentives." US Department of Commerce Economic Development Administration, National Association of State Development Agencies. 1999.

[8] "Amazon HQ2 RFP" Amazon.com. 2018.

[9] Michael Greenstone, Richard Hornbeck, and Enrico Moretti, "Identifying Agglomeration Spillovers: Evidence from Winners and Losers of Large Plant Openings," Journal of Political Economy 118 (3) (2010): 536–98.

2. Without incentives, the chances of attracting new large businesses to relocate to one's state is too low.

Large businesses have many options and choices in terms of where they can move to. When a growing company decides that it would like to open up a third office, or a second headquarters, or a fifth factory, or a fourth shipping facility, often there are no inherent business requirements to choose a particular state. Many companies will engage in "tax rate shopping," where they shop around to different states looking for the most favorable business environment—much like how you might shop around for the best price on a new bicycle or computer.

Regarding North Carolina's incentives for the Honeywell corporation:

"Public records submitted to the Charlotte Business Journal from the N.C. Department of Commerce late Wednesday suggest the five metro areas shortlisted for the 750-job relocation—Charlotte (as well as its metro area in South Carolina), Houston, Atlanta, and Tampa and Orlando, Florida—were fairly equal on things like cost of doing business, talent and infrastructure. Ultimately, the records indicate, incentives packages proved to be the tipping point in the company's final decision."

Source: Fahey, Ashley. "Newly released records reveal NC legislation boosted Honeywell incentives package by up to $10M" *Charlotte Business Journal*. January 10, 2019

Officials—who in many ways are held responsible for the condition of a state's economy—argue that unless they are able to offer some incentive, the chances of a given business choosing their state to relocate to is just too small.[10] They argue that they need to offer a special deal in order to be competitive with other states. Of course, simply offering an incentive is no guarantee that a business will choose to relocate to a certain state, but researchers believe that incentives do play a critical role in these decision up to 25 percent of the time.[11]

3. Tax incentives make use of unused public land, vacant buildings, and other dormant assets.

Over time, states accumulate large amounts of property, including land and buildings. Carrying these assets is a burden to an economy, and states are often eager to find more productive uses for those assets before they deteriorate. The state of North Carolina's Department of Administration has an entire office called "State Surplus" dedicated to liquidating and making the best possible use of these assets.[12]

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[10] Parilla and Liu, "Examining the Local Value of Economic Development Incentives: Evidence from Four U.S. Cities." Brookings Institution. March 2018.

[11] Bartik, Timothy. "'But For' Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?" Upjohn Institute Working Paper 18-289. July 2018.

[12] State Surplus General Information. North Carolina Department of Administration. Accessed August 7, 2019.

A piece of land or building that has fallen into disuse does not generate any tax revenue for the state anyway, so offering a temporary tax break to a business that would be willing to move and improve that resource does not "cost" taxpayers anything. In fact, the state is better off in the long run because if that business is successful, then eventually it will start paying taxes on it. Offering tax incentives in this case, therefore, helps to broaden the tax base (i.e., increase the number of businesses paying taxes) and raise new tax revenues.[13]

4. States can design targeted tax incentives to include conditions to get businesses to do socially useful things that they might not otherwise do.

If designed with broader goals in mind, targeted tax incentives can serve higher purposes such as improving economic justice, enhancing economic opportunity, and reducing inequality. For example, states can add requirements to disproportionately hire people residing in certain low-income neighborhoods, or to provide job-based training to a certain number of their new hires, or to provide a community college tuition benefit. In most states, tax incentives are linked to specific "economic development zones" such that they help poorer areas.[14] In other words, incentives can be custom-designed to serve the particular needs of the people of a state. No other economic program can achieve this quite so easily.

Adding socially useful conditions to tax incentives is a relatively new idea. Some of the movement stems from the realization that to date, certain minority groups (e.g., Black and Hispanic workers) have been underrepresented in the industries that receive the greatest economic development incentives.[15] Critics of tax incentives might reference that fact to argue that such incentives have not always been successful at addressing these concerns, but advocates can respond that the proper fix is not to cease offering incentives altogether—rather, the proper fix is to design better tax incentives with conditions that address these inequities more effectively.

5. Businesses are better than government at stimulating growth. Taxes drain resources away from businesses. Therefore, the less taxation, the better for everyone.

Regardless of whether one thinks that targeted tax incentives are fair or optimally designed, it is indisputable that offering tax incentives results in businesses being able to keep more of their resources than not offering tax incentives. Therefore, anyone who agrees that taxes are a drain

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[13] Parilla and Liu, "Examining the Local Value of Economic Development Incentives: Evidence from Four U.S. Cities." Brookings Institution. March 2018.

[14] Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives," Journal of the American Planning Association 70 (1) (2004): 27–37. McGahey and Vey, Retooling for Growth.

[15] Parilla and Liu, "Examining the Local Value of Economic Development Incentives: Evidence from Four U.S. Cities." Brookings Institution. March 2018.

on the economy should prefer less taxation to more taxation, no matter what form the tax reduction takes.

President Coolidge himself believed that business taxation should be minimized. For example, in 1924, he wrote:

> *"That tax is theoretically best which interferes least with business. Every student knows that excessively high tax rates defeat their own purpose. They dry up that source of revenue and leave those paying lower rates to furnish all the taxes."*[16]

Furthermore, Coolidge was so disapproving of taxes that he even famously called them "legalized larceny." From his inaugural address in 1925:

> *"The collection of any taxes which are not absolutely required, which do not beyond reasonable doubt contribute to the public welfare, is only a species of legalized larceny. Under this republic the rewards of industry belong to those who earn them. The only constitutional tax is the tax which ministers to public necessity."*[17]

Coolidge believed that some taxation was necessary, and that governments (both at the state or federal level) ought to be properly funded to carry out their legitimate duties. But if it is valid to want to minimize taxation, then tax incentives are one way of achieving that goal.

Some people attempt to smear tax incentives by calling them a subsidy (i.e., an outright "grant" of money from the government to a business). But that is not a fair characterization because giving a business a break on a tax is different from handing a business a subsidy. Instead, taxes are like penalties, which make targeted tax incentives like "life jackets."[18] The best policy would be to throw a life jacket to *all* businesses, but until then we should not disparage the idea of tax incentives and do away with the idea of helping *some* businesses.

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[16] *Calvin Coolidge of Northampton* pp. 12-13
[17] Coolidge, Calvin. Inaugural Address, March 4, 1925.
[18] McCaffrey, Matthew. "No, Tax Breaks Are Not Subsidies." The Mises Institute. May 27, 2015.

NEGATIVE ARGUMENTS

1. Targeted tax incentives do not generate enough benefits to justify the diversion of money that would have gone to the state.

Every dollar that is given out in the form of a state tax incentive is a dollar that the state government potentially would have collected, but now has to do without. Measuring the exact value of the tax incentives that are given out each year is challenging, but no matter whose estimate you go by, the figure is substantial.[19] Researchers have estimated that between tax incentives worth between $45 billion and $90 billion are given out annually across all states.[20] At a time when state budgets are strained, and the costs associated with schools, parks, highways, bridges, judicial courts, and other state government functions are rising, giving tax breaks to corporations is not wise fiscal stewardship. It is unfair to taxpayers, who are left with having to pay for the full cost of government.

> In 1996, North Carolina passed the William S. Lee Act, which for a limited time established economic incentives for employers in an effort to better compete with similar programs in other states. Two of the first uses of it were not very impressive deals for the state. FedEx received $115 million in incentives for a shipping hub, or $77,000 per new job created. Nucor received $161 million for a small steel mill, or $536,000 per new job created. Those are some expensive jobs! Also, Nucor is not required to pay any state income taxes for 25 years.
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> Source: LeRoy, Greg. *The Great American Jobs Scam: Corporate Tax Dodging and the Myth of Job Creation*. Berrett-Koehler Publishers. (2005).

A comprehensive review of the academic literature on tax incentives concluded that although it is possible that some tax incentives spur new economic growth, it is not clear that that is always the case, and that there are many examples in which tax incentives fail to deliver sizable benefits.[21] The authors of this review write that the net effect of tax incentives "is to starve government of the resources it needs to finance the services it should be providing."[22] Furthermore, they advise state policymakers to "lower their expectations for what benefits economic incentives can deliver [and instead focus] their attention and resources on strengthening public goods related to infrastructure, education, and quality of life."[23]

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[19] "Tax Incentives: Costly for States, Drag on the Nation" Institute for Taxation and Economic Policy. August 14, 2013.
[20] Bartik, Timothy. "'But For' Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?" Upjohn Institute Working Paper 18-289. July 2018.
[21] Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives," Journal of the American Planning Association 70 (1) (2004): 27–37. McGahey and Vey, Retooling for Growth.
[22] Ibid.
[23] Ibid.

2. Giving out tax incentives to some businesses and not others is unfair to the businesses who have to compete with the tax incentive recipients.

Imagine you are a small manufacturing company located in North Carolina. You started your business in North Carolina and you have been in the state for many years, so you do not qualify for any relocation-based targeted tax incentive. How would you feel if your chief competitor were to apply for and receive a tax incentive to open up a new factory in your state? Since taxes are a small but non-trivial component of overall business costs, your competitor would have an advantage over you.[24] All else equal, he could sell his products at a lower price than yours because his tax bill is lower, which would likely cause more consumer to buy his products instead of yours. Most likely, you would feel that the situation is unfair.

Economists acknowledge that targeted tax incentives "can result in similar firms having vastly different effective tax rates that are hard to justify."[25] The situation can feel even more unfair when one considers that the companies that tend to be able to get special tax treatment tend to be larger companies. Just as smaller companies do not have the resources to lobby the state government for special treatment, smaller companies tend also to not be big enough to qualify for tax incentives, which usually apply to companies of at least a medium or large size. Tax incentives, therefore, are a redistribution of wealth from small businesses to large businesses, which is unjustified and unfair.

3. The politicians who design tax incentives do not have a strong incentive to be selective, and voters do not have enough reason to stay informed.

Politicians who are in charge of designing and implementing targeted tax incentive programs do not have a very strong incentive to be careful and picky about which businesses they incentivize. A politician who puts forth an incentive program can fail nine out of ten times, but if on that tenth time he or she succeeds in a visible way, that will be all that the public remembers. Unfortunately, a small number of highly visible successes can make a program that is overall a bad deal for taxpayers look like it is a good program.

Politicians are interested in finding examples of success so that they can claim credit for any jobs that are created, for any economic growth that happens, or for any good outcome that occurs. As researchers Parilla and Liu write, "Local job creation and development are great, but

[24] "Tax Incentives: Costly for States, Drag on the Nation" Institute for Taxation and Economic Policy. August 14, 2013.
[25] Robyn, Mark. "The Problem with Targeted Tax Incentives." Tax Foundation. July 20, 2011.

local job creation and development that policymakers can claim direct responsibility for is even greater."[26]

Economist Peter Calcagno expands on this idea, writing the following in a piece for the American Institute of Economist Research:

> *"Industries seeking preferential treatment dominate the political process because taxpayers have very little incentive to be well-informed about the costs associated with these tax-incentive programs and to create organized opposition. The jobs created at a new plant are easily visible to the state or local community; the community members do not see the jobs that are lost elsewhere in the economy because of the higher tax burdens imposed on other businesses and consumers. Nor do they see the scarce resources that this political process is allocating away from productive ventures that could produce real output and growth that firms are instead spending on lobbying politicians to obtain these favors."*[27]

Calcagno continues with a good point about the motivation of policymakers:

> *"[T]axpayers may be unable to see that their future tax bills will be higher in order to service the public debt issued to finance the subsidies to politically influential private companies. All the while, politicians receive the benefit of claiming they created jobs, supported business, and helped generate economic growth. This wins them votes come election time."*[28]

Since even the most well-meaning politicians will tend to be more interested in chasing success stories than avoiding failures, they may be motivated to make incentives excessively large rather than be motivated to be prudent with the public purse. This can go virtually undetected by regular citizens because of the problem of "concentrated benefits and diffuse costs," which states that businesses a good reason to follow incentive programs closely because large amounts of money are potentially at stake for them, but average citizens do not have good reason to spend effort and time following incentive programs because for each citizen it only amounts to perhaps a few dollars per year in cost.

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[26] Parilla and Liu, "Examining the Local Value of Economic Development Incentives: Evidence from Four U.S. Cities." Brookings Institution. March 2018.
[27] Calcagno, Peter. "Targeted Tax Incentives: Perverse and Ineffective." American Institute for Economic Research. January 17, 2019.
[28] Ibid.

4. Businesses do not actually make decisions about where to locate themselves based on tax incentives, so tax incentives are unnecessary.

Some researchers have found that tax incentives do not actually influence corporate relocation decisions very much. One study estimated that at least 75% of the time, businesses who relocate to a new state and receive a tax incentive would have relocated to that state anyway.[29] Usually there are much more powerful factors in play, such as proximity to an international airport, proximity to a port, climate, and availability of a skilled labor force.[30,31] Perhaps the worst case scenario for a state is to offer a large tax incentive to a business that intended to move to that state anyway (i.e., even without the incentive).[32]

Furthermore, tax incentives and corporate relocations are at least in some sense a "zero-sum" game. Overall productive business activity does not necessarily increase as a result of a tax incentive—it just moves from one place to another, so policymakers should not go to such great lengths to encourage it. To visualize this, imagine that a company in Texas is looking to move its factory out of state. If North Carolina offers a tax incentive, it might "win" the factory, but North Carolina's "win" is Texas's "loss." The economic activity that is added to North Carolina has been drawn away from Texas.

When two or more states compete to offer the biggest and best tax incentive, it is a waste of taxpayer dollars because the company *has to go somewhere*. It is inefficient for states to compete too hard and give away too much. This is known as a "race to the bottom."[33]

5. Central planners lack the knowledge needed to reliably pick winners and losers.

When a state decides to offer targeted tax incentives, it is engaging in an activity that one might call "picking winners and losers." All targeted incentives have certain criteria that determine which companies can receive them. For instance, a new tax incentive in Michigan that took effect in 2018 lets companies keep the income taxes paid by their new employees if the company creates at least 250 jobs and pays at least an "average regional wage." Those simple criteria are enough to exclude most businesses. Indeed, the individuals pushing for the

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[29] Bartik, Timothy. "'But For' Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?" Upjohn Institute Working Paper 18-289. July 2018.
[30] Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives," Journal of the American Planning Association 70 (1) (2004): 27–37. McGahey and Vey, Retooling for Growth.
[31] "Tax Incentives: Costly for States, Drag on the Nation" Institute for Taxation and Economic Policy. August 14, 2013.
[32] Bartik, Timothy. "'But For' Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?" Upjohn Institute Working Paper 18-289. July 2018.
[33] Calcagno, Peter. "Targeted Tax Incentives: Perverse and Ineffective." American Institute for Economic Research. January 17, 2019.

incentive most vigorously were attempting to attract a particular company—Taiwanese electronics manufacturer Foxconn Technology Group—to the state.[34] Accepting this plan is tantamount to the state government picking Foxconn Technology Group as an economic "winner," as if the opinions of state officials should matter more than the preferences of consumers in determining which business succeed.

Nobel-Prize-Winning economist Friedrich Hayek had good reasons why letting the government pick winners is a bad idea. His research shows that central planners lack the knowledge that is needed in order to know for sure which businesses are the best for the economy.[35] Hayek explained that economic knowledge is highly diffused across many hundreds of thousands (or even millions) of individuals who are each constantly making small adjustments to do things more efficiently and more optimally.[36,37] According to Hayek, small group of government officials cannot possibly have as much "ground-level" experience and information as everyone else combined, and therefore there is no guarantee that they will make the "right" decision about which companies should come out on top.

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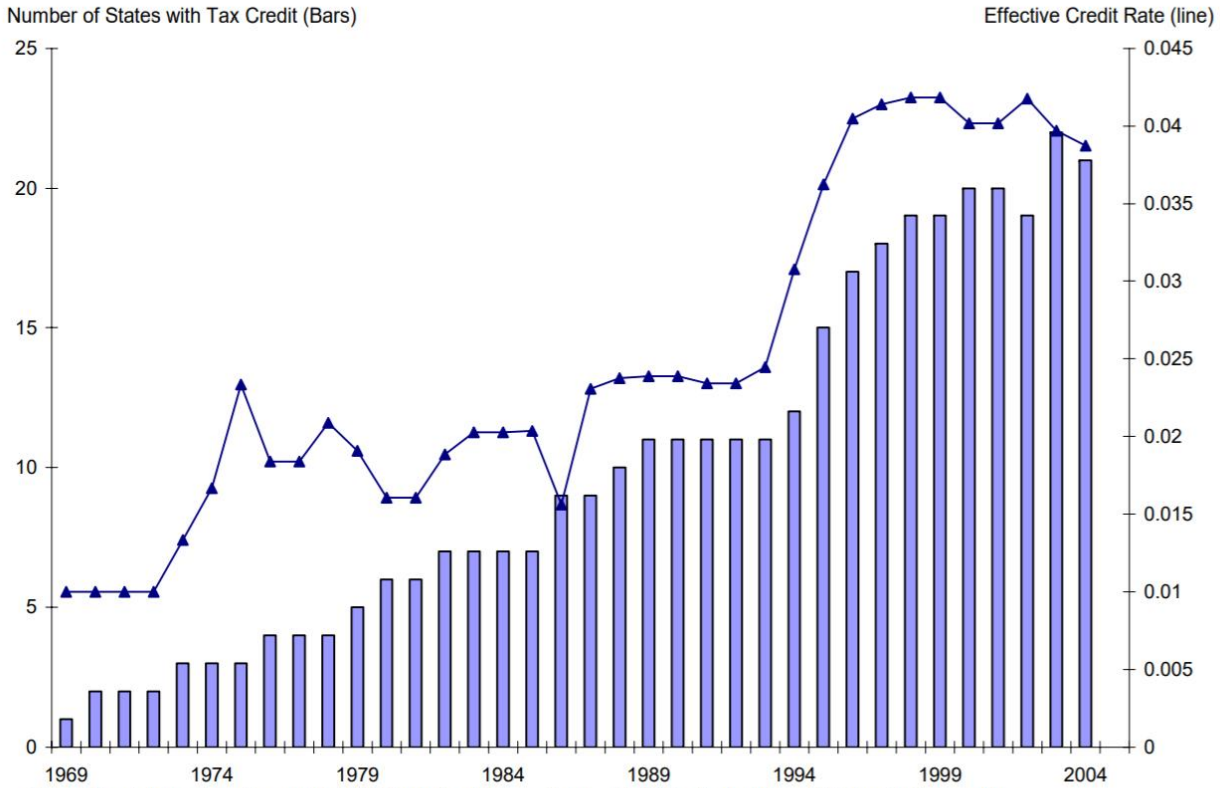
[34] VanHulle, Lindsay. "Business incentives cost Michigan millions, and it's uncertain they work." *Bridge Magazine*. January 23, 2018.
[35] Kaza, G. "Michigan's MEGA Credits: Hayek's Insight" Economic Development Quarterly. (2012) 26(4) 379.
[36] LaFaive and Hicks. "The 'Knowledge Problem'." Mackinac Center for Public Policy. April 12, 2005.
[37] Hayek, Friedrich, and William Bartley. *The Fatal Conceit: The Errors of Socialism*. Chicago: University of Chicago Press, 1989.

APPENDIX A. The Historical Growth of State Tax Incentives

State tax incentives emerged in the 1960s and have grown in popularity up to the present day. The graph below shows part of the historical trend. The left axis is the number of states that offer targeted tax credits, and the right axis shows the effective credit rate. The effective credit rate is a credit against future tax liabilities. In essence, it can be thought of as the value of the incentive.

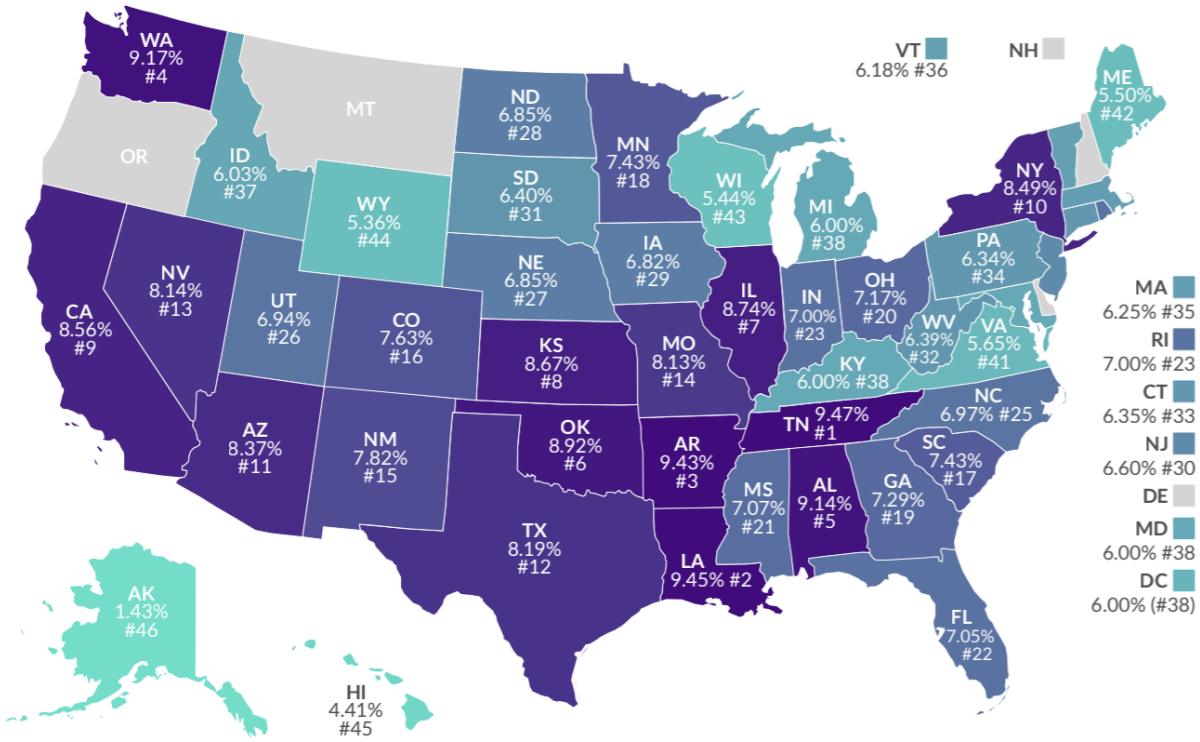


Notes: Counted investment tax credits (ITCs) include only general, statewide ITCs. Excluded are ITCs targetted at specific geographic zones ("Enterprise" zones), specific industries, or specific companies.
Data Source: Authors' calculations based on state corporate tax forms.

Source: Chrinko and Wilson. "State Investment Tax Incentives: A Zero-Sum Game?"
Federal Reserve Bank of San Francisco Working Paper Series. July 2008.

APPENDIX B. State Tax Rates Vary Across the Country

There are many taxes to take into consideration when deciding where to locate a business, including income taxes, property taxes, and sales taxes. To give a sense of the differences in tax rates in just one of these categories, below is a map showing the combined state and local sales tax rates for each of the 50 states and Washington, DC. North Carolina has a tax rate of almost 7%, which places it right at the median (25th place ranking) for the country.



Note: City, county, and municipal rates vary. These rates are weighted by population to compute an average local tax rate. Three states levy mandatory, statewide, local add-on sales taxes at the state level: California (1.25%), Utah (1.25%), and Virginia (1%); we include these in their state sales tax. The sales taxes in Hawaii, New Mexico, and South Dakota have broad bases that include many services. Special taxes in local resort aresas are not counted here. Salem County, N.J. is not subject to the statewide sales tax rate and collects a local rate of 3.3125%. New Jersey's local score is represented as a negative. D.C.'s rank does not affect states' ranks, but the figures in parentheses indicate where it would rank if included.

Source: Sales Tax Clearinghouse, Tax Foundation calculations, State Revenue Department websites

Source: Cammenga, Janelle. "State and Local Tax Rates, January 2019." Tax Foundation. January 2019.

APPENDIX C. Incentives Disproportionately Go to High-Tech Industries

Not all industries receive the same level of tax incentives. Many jurisdictions give out a disproportionate share of tax incentives to high-tech businesses because it is believed that they have greater growth potential. This tends to benefit people with advanced degrees and training in science, technology, engineering, and math the most. (The chart below shows examples from four U.S. cities, however in each case a substantial portion of the tax incentives offered during the study period were granted by the state against state tax liabilities, so they are relevant to a discussion of state policy.)

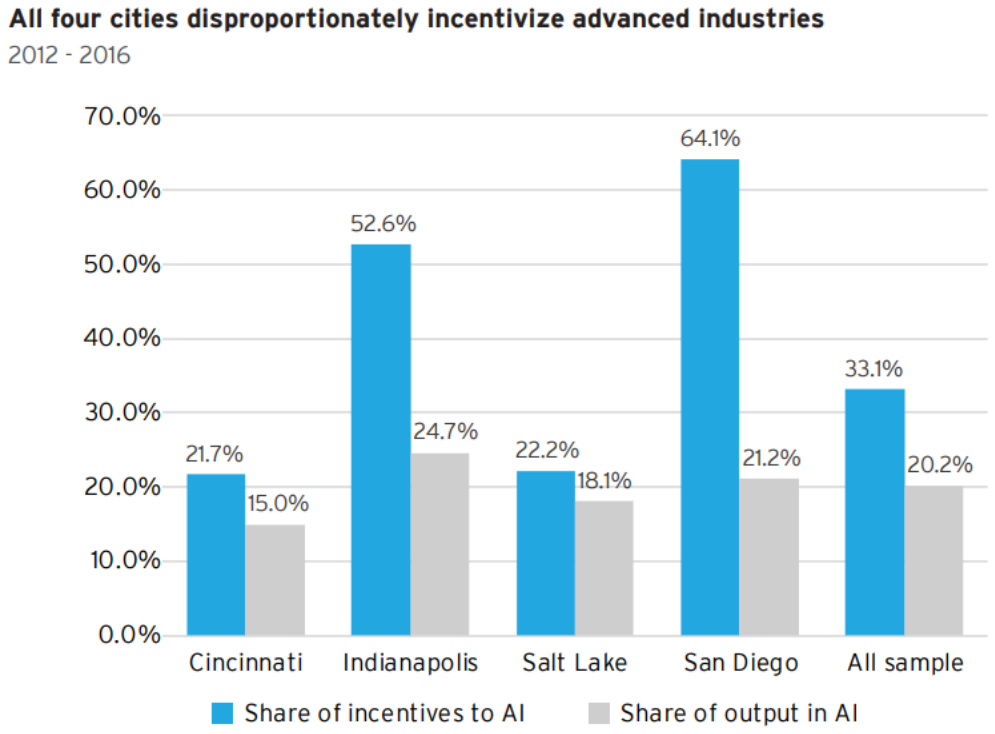


Chart source: Parilla and Liu, "Examining the Local Value of Economic Development Incentives: Evidence from Four U.S. Cities." Brookings Institution. March 2018.

(Data from Brookings analysis of data from city of Cincinnati, city of San Diego, Indy Chamber, Salt Lake County, Indiana Economic Development Corporation, Ohio Development Services Agency, and Good Jobs First)