

Opinion: 10 Harmful Consequences Of Handouts

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Amazon has chosen New York City and Arlington, Virginia, for new corporate headquarters after the cities ponied up more than \$2 billion in subsidies to the retail giant.

Workers in the two cities will be winners as labor demand gets boosted, but business subsidies make losers of taxpayers, other businesses and good governance.

The subsidies to Amazon are a microcosm of the huge “incentives” industry that has spread like cancer through state and local governments in recent years. A New York Times investigation uncovered \$80 billion of annual business subsidies across the nation through 1,874 state and local programs.

Some New York and Virginia workers will be winners from the Amazon deal, but here are 10 reasons why business subsidies are a loser for citizens overall:

Fairness. With Amazon adding thousands of workers, hiring will be tougher for other tech firms in New York City and Northern Virginia. That would be OK if it was a free market, but the subsidies give Amazon an unfair edge. The subsidies will also give Amazon a leg up on competitors for its products and services.

Alternatives. New York and Virginia would have generated more durable growth by cutting business taxes across the board by \$2 billion. That would have boosted investment by many businesses, and thus created more balanced prosperity. New York may have landed Amazon, but its high taxes are driving away other firms.

Earlier this year, for example, New York finance firm Alliance Bernstein announced it is moving to Tennessee for lower taxes.

Diversity. Industry clusters such as Silicon Valley are successful not because they have big companies, but because they have a start-up culture that nurtures growth companies with venture capital. Rather than favoring big companies, state and local politicians would better spur growth by reducing tax and regulatory barriers to spawn a diversity of new companies.

Corruption. Allowing politicians to hand-out business subsidies at their discretion generates corruption because the hand-outs get swapped for campaign cash and outright bribes. State film

tax credits in places such as Iowa and Louisiana are plagued by corruption, as are affordable housing subsidies to developers in places such as California and Florida.

Bureaucracy. Amazon-style subsidy deals are jobs programs for accountants and lawyers. The Amazon agreement with Virginia is 25 pages of remarkable micromanagement regarding jobs, wage targets, tax breaks, and grant amounts. Such agreements often break down as business conditions change, and then the legal battles begin.

Lobbyists. The high-profile Amazon win will inspire more companies to shake down politicians for subsidies. Other firms don't want to be chumps, so they will hire lobbyists to urge officials that they deserve the same job-training money and other benefits that Amazon received.

Meanwhile, every state and local government these days has an "economic development" agency that is fueling the business subsidy arms race.

Dependency. Just as welfare undermines individual productivity, corporate welfare undermines business productivity. Solar company Solyndra pushed ahead with misguided products while its costs ballooned from wasteful spending, such as on its Taj Mahal headquarters.

The half-billion dollars of federal subsidies that Solyndra grabbed from the Obama administration undermined its agility and focus.

Bad Decisions. Some experts are saying that Amazon should have chosen locations in the faster-growing South. We will see about that, but there is no doubt that subsidies induce companies to make bad decisions that backfire.

Southern Company was induced by federal subsidies to build a nuclear plant in Georgia that is turning out to be a giant money pit, and a key factor in Enron's downfall was that it was induced to make risky foreign investments by subsidies from the George W. Bush and Clinton administrations.

Politics. High-profile subsidy deals are politically risky. Governor Scott Walker never cut Wisconsin's high corporate tax rate, but instead handed out subsidies to favored firms. He championed a huge deal to give electronics firm Foxconn \$4 billion in subsidies to build a plant in the state.

But the huge size of the subsidies and the company's shifting promises became a political liability for Walker, and voters rejected his re-election bid on November 6.

Priorities. State and local governments face serious problems that may sink their economies in coming years such as large unfunded pension costs. They should fix those problems rather than trying to micromanage the economy. If states adopt low tax rates and repeal unneeded regulations on zoning, licensing, and other activities, growth will take care of itself.

As with much of government spending, these costs of corporate pork to society are large but diffuse, while the benefits to the recipients are direct and visible.

Rather than subsidizing big businesses, the states should aim to create a diverse business ecosystem — an Amazon, if you will — by cutting taxes and regulations for all types of investment.

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