Economists Urge Lower Taxes, Rather Than Subsidies in Virginia

Tyler Arnold

December 6, 2022

(The Center Square) – Virginia Gov. Glenn Youngkin promised businesses he will facilitate stronger private-public partnerships to spur economic growth during an international trade summit this week, but some economists are cautioning against that approach.

During his speech, Youngkin said the state must grow its workforce and grow investments. He said the government should not be solely responsible, but that partnerships with the chamber of commerce and other industry leaders will help create a best in class business environment. He added the commonwealth should not just compete with other states but should beat them.

One area the governor focused on was business-ready sites. In the recent budget, lawmakers included $150 million in taxpayer funds to develop sites to be more marketable to businesses looking to invest. Youngkin wants the state to more than triple this funding.

"In June, I signed a budget which included $150 million for preparing business-ready sites and we have to do so much more," Youngkin said in a statement. "I will propose an additional $350 million investment for a total of $500 million to secure Virginia's position as having the best sites in the nation. I want 'Made in America' to mean 'Made in Virginia.'"

The governor claimed a lack of sites cost the commonwealth more than 55,000 jobs and $124 billion in capital investments since 2016. He said he supports bringing companies to Virginia and helping companies already in the state that want to grow by developing more sites.

Additionally, Youngkin said the state needs to continue lowering corporate and personal taxes to incentivize investments. Earlier this year, he signed a budget that cut about $4 billion in taxes and said he is committed to even more.

Some economists are urging the governor to support broad tax reductions that will help all businesses, rather than promoting economic development spending plans that only fund a small number of big businesses.

Chris Edwards, an economist with the libertarian Cato Institute, said the governor should cut or repeal the Business Tangible Personal Property, which taxes businesses on machines they already invest in and discourages future investments. He said the governor should also seek to repeal the Business, Professional and Occupational License tax, which is a hidden and distortionary tax.

Edwards said the state should not subsidize business investments because it creates favoritism, distortions and corruption. He said those policies do not affect small and medium sized businesses, but instead create an uneven playing field for them.

Gary Wagner, an economics professor at the University of Louisiana at Lafayette, told The Center Square that studies have largely concluded that subsidies are not effective in increasing jobs or income. In the small number of studies that found some effect, they have shown that those gains are concentrated in the firms or industries that receive the subsidies, rather than spilling over to the broader community.

“One area that has been shown to be effective in incentivizing jobs growth is enacting a low rate-broad base tax system,” Wagner said. “A major problem with government-awarded incentives is that it presumes that the government policymakers know the industries or firms that are likely to prosper in the future. A low rate-broad base system gives all firms equal footing to potentially expand without assuming that we can plan the economy.”

The Virginia General Assembly will meet for its regular session in January of next year.