EXECUTIVE SUMMARY

# EXAMINING THE LOCAL VALUE OF ECONOMIC DEVELOPMENT INCENTIVES

*Evidence from four U.S. cities*


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# Executive Summary

Every year local and state governments in the United States expend tens of billions of dollars on economic development incentives. Under intense pressure to deliver economic opportunity, policymakers utilize incentives to encourage private sector firms to create jobs, invest in communities, and strengthen local industries. Drawing on a detailed literature review and a unique analysis of economic development transactions in four U.S. cities (Cincinnati, Indianapolis, Salt Lake County, and San Diego), this report advances a framework for inclusive economic development to help leaders analyze and evolve their incentive policies. Its key findings include:

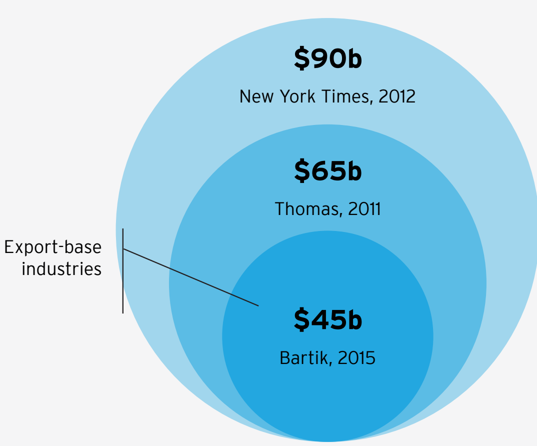
1. **Economic development incentives remain a core aspect of local and state economic development policy.** This report defines economic development incentives as direct financial benefits that incentivize a firm's opening, expansion, or retention. What distinguishes incentives from broader economic development efforts is that governments selectively provide these incentives to individual businesses, arguing that their investment or expansion would not occur but for the incentive. Estimates suggest that these policies contribute to significant public expenditures, ranging between $45 and $90 billion per year depending on the definition and estimation method.

2. **Incentives have come under renewed scrutiny from both academic researchers and the public.** The competition between cities to land Amazon's second corporate headquarters—along with the controversial billion-dollar incentives packages being offered—has thrust local and state economic development approaches into the public spotlight. Pressure to limit incentives for big corporate relocations has drawn on academic evidence that remains skeptical about the effectiveness of incentives, arguing that incentives do not influence business decisions to nearly the extent policymakers claim nor are they properly targeted to businesses and industries that can offer the greatest economic and social benefit.

3. **Cities should target incentives based on core principles of inclusive economic development.** A review of local and state economic development incentives provided to firms in four U.S. cities finds that transactions align with several principles of inclusive economic development but fall short on others. Cities, regions, and states must master the global scale and technological complexity of the advanced economy and address the entrenched and exclusionary biases that prevent all workers and communities from meeting their productive potential. We distill this dynamic into four principles toward which cities and states can align incentives. Drawing

**Local and state economic development incentives are a big business**

Estimated total amount of local and state incentives (billions, in 2015 U.S. dollars)



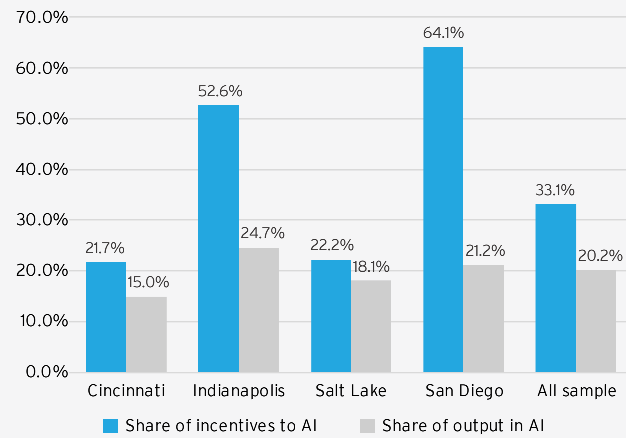

Source: Louise Story, Tiff Fehr, and Derek Watkins, "Explore Government Subsidies," The New York Times, December 1, 2012. K. Thomas, Investment Incentives and the Global Competition for Capital (Springer, 2010). Timothy Bartik, "A New Panel Database on Business Incentives for Economic Development Offered by State and Local Governments in the United States" (Kalamazoo: W.E. Upjohn Institute for Employment Research, 2017) on unique transaction-level information with businesses in Cincinnati, Indianapolis, Salt Lake, and San Diego, we conducted a "census of incentives" to determine whether local and state incentive policies are aligned with these four principles:

- **Grow from within** by prioritizing firms in advanced industries that drive local comparative advantage, innovation, productivity, and wage gains. Across all four cities, local and state economic development incentives disproportionately go to firms in advanced industries. On average, advanced industries account for about 20 percent of economic output but receive about one-third of all incentives.

- **Boost trade** by facilitating export growth and trade with other markets in the United States and abroad in ways that deepen regional industry specializations and bring in new income and investment. Across all four cities, local and state economic development incentives disproportionately go to firms in exporting industries. The export intensity of industries that receive economic development incentives—that is, the share of local output accounted for by goods and services exports—across the four cities is more than twice as high (25 percent) as the economy as a whole (11 percent).

**All four cities disproportionately incentivize advanced industries**

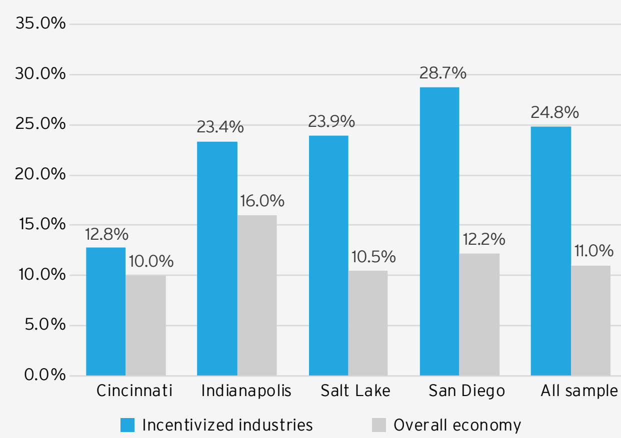
2012 - 2016




Source: 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

**Incentivized industries are more export intensive**

Export intensity, export value as a share of economic output



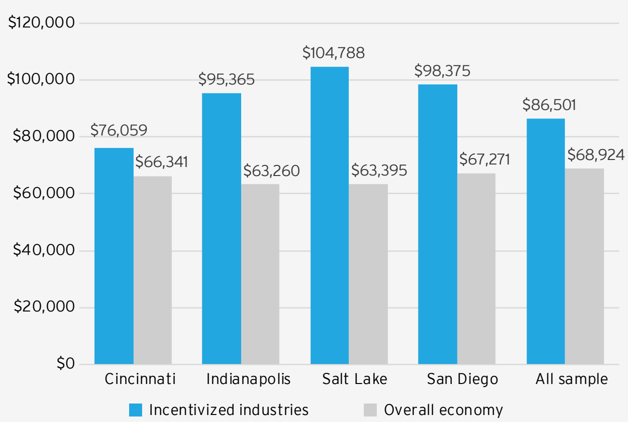

Source: Brookings analysis of data from city of Cincinnati, city of San Diego, Indy Chamber, Salt Lake County, Indiana Economic Development Corporation, Ohio Development Services Agency, and Good Jobs First

- **Invest in people and skills** by incorporating workers' skill development as a priority for economic development and employers so that improving human capacities results in meaningful work and wages. Partly because of their tradability and technological sophistication, incentivized industries in these four cities pay 25 percent higher wages than the overall economy. Yet, we identified concerns related to racial inclusion. Black and Hispanic workers remain underrepresented in industries that receive economic development incentives, and a low share of incentives go to firms for job training purposes.

- **Connect place** by catalyzing economic place-making, and work at multiple geographic levels to connect local communities to regional jobs, housing, and opportunity. Within this principle, many cities focus incentives on addressing blight and distress in communities of concentrated poverty. Cincinnati and Salt Lake clearly display this focus, but it is less apparent in Indianapolis and San Diego. The average poverty rate of a neighborhood in which a business or redevelopment receives incentives is nearly 30 percent in Cincinnati and 18 percent in Salt Lake, compared to jurisdiction-wide poverty rates of 18 percent and 12 percent, respectively.

**Incentivized industries pay workers higher wages**

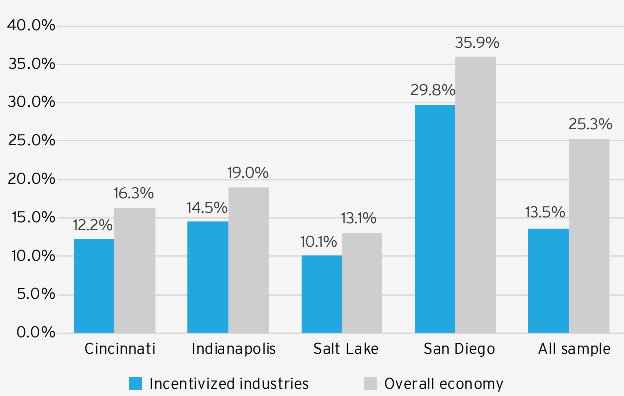
Average annual earnings per worker, 2016




Source: 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

**Black and Hispanic workers are underrepresented in incentivized industries**

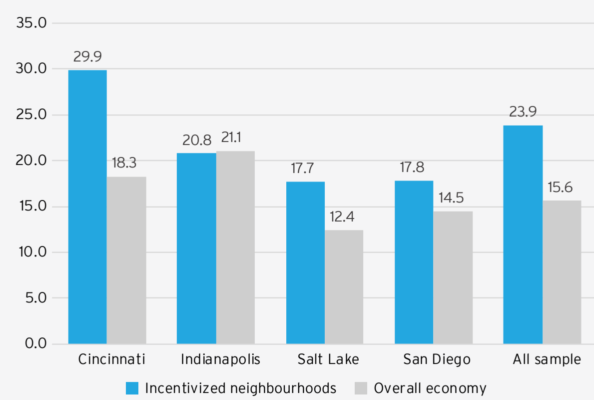
Share of black and Hispanic workers employed in incentivizes industries/ overall economy




Source: 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

**Incentive target poor neighborhoods in Cincinnati and Salt Lake**

Average poverty rate in incentivized neighborhoods/ overall economy, weighted by incentive amounts




Source: 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

4. **Economic development leaders should ensure incentives policies align with broader economic objectives, embrace public transparency and rigorous evaluation, and only target firms that advance broad-based opportunity.** While not a full analysis of economic impact, our findings offer some implications for economic development incentives policy and practice. First, policymakers should ensure incentives reflect local and regional economic objectives. This census of incentives provides one guide for how cities can situate their incentives practices within four principles of inclusive economic development. Second, localities must commit to making incentives information publicly transparent, and then rigorously evaluate their impact on firm outcomes to determine what works. Finally, clearer criteria and more effective targeting should reserve incentives only for those firms that will advance broad-based opportunity, either by incentivizing opportunity-rich firms and industries, incentivizing firms to provide workers more opportunity, or by addressing place-based disparities in opportunity.

Fortunately, we observe progress toward a more responsible and rigorous incentives approach in many U.S. cities, signaling a nascent but necessary progression in the practice of economic development. We hope this report can help provide insights and tools to local leaders as they undertake that important and needed evolution.

**Implications for economic development incentives policy and practice**

| Leaders should: | |
|---|---|
| 1. **Align incentives to local goals** | situate incentives within broader economic development objectives |
| 2. **Embrace transparency and evaluation** | commit to making incentives information publicly transparent, and then rigorously evaluate their impact on firm outcomes to determine what works |
| 3. **Target incentives to enhance productive, inclusive growth** | limit incentives to only those companies or activities that can contribute to broad-based economic opportunities |

**Incentivize opportunity-rich firms** that contribute to exports, innovation, and good-paying jobs for workers

**Incentivize firms to provide more opportunity** by reserving incentives for firms that partner civically or invest in productivity enhancers like job training or technology adoption

**Incentivize firms with place in mind** to limit within-region poaching and address community disadvantage

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