Don’t use Targeted Tax Incentives to Stimulate Economic Development

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State and local governments throughout the United States rightly desire more economic growth so as to create jobs, income, and wealth for their residents. Many government officials, including those in Colorado Springs, believe that an effective way to stimulate economic development is through a system of targeted tax incentives. Since businesses respond to incentives, it would appear natural to “incentivize” them to locate where the after-tax profits would be greatest – other things being equal. Whether it is to attract new companies, or to selectively expand existing companies, there is a great bidding war going on throughout America for economic development through targeted tax incentives.

These incentives take many forms, some overt and some covert. Overt incentives include the likes of property tax abatements and sales tax rebates. Covert incentives include reduced regulation or lower utility rates. All are designed to entice new business to relocate or existing business to expand. On the surface, incentives-based economic development seems to be a logical policy.

However, below the surface, there are three major flaws with this approach to economic development. First, a marketing maxim is that current customers provide the best and least costly opportunity for future growth. Likewise, the businesses that currently operate in Colorado Springs provide the best and least costly opportunity for future economic growth. These businesses can all benefit from low tax rates, low regulation, and low utility rates. By providing an economic environment that is welcoming to all, we will grow and thrive. When we only provide incentives to new or selected companies, we create an un-level playing field with our existing base of businesses.

Second, there is the problem of picking winners and losers. Which businesses should be incentivized and which should not? There is a reasonable argument to be made that targeted incentives to lure an outside business to locate here, or to keep a current business from moving out, might pay for itself over time. But this assumes a super-human intelligence and clairvoyance on the part of the city planners. I don’t know about you, but I have yet to see the ability of local officials to pick the “right” winners and losers.

Third, such a system of picking winners and losers naturally leads to the temptation of bribery. It opens the door to cronyism and corruption. It’s just human nature. Why even open that door? Wouldn’t it be better to grow an economy organically by providing a level playing field of low taxes and light regulation to every business? The emergent order of the marketplace-ecosystem will, by its very nature, lead to increased jobs, income, and wealth without the necessity of having a central plan. Such plans are doomed to failure, as is evidenced over and over again by history – both globally and locally. Let us instead, foster a market-friendly environment in Colorado Springs that will benefit all. This will simultaneously allow current companies to expand and attract new businesses.