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Study: Despite States' Pro-Small Business Rhetoric, Big Businesses Get Dominant Share of Economic Development Dollars

Washington, DC—Governors and state legislators routinely praise small businesses for their contributions to economic growth and job creation, but states actually give big businesses the dominant share of their economic development incentive awards.

An analysis of more than 4,200 economic development incentive awards in 14 states finds that large companies receive dominant shares: 70 percent of the deals and 90 percent of the dollars. The deals, worth more than $3.2 billion, were granted by programs that are facially accessible to both small and large companies. More than 500 other state incentive programs were disqualified for analysis because they have barriers to entry that exclude small businesses and favor big businesses.

That is the key finding of *Shortchanging Small Business*, a study released today by Good Jobs First at: www.goodjobsfirst.org/shortchanging . It was funded by the Surdna Foundation and the Ewing Marion Kauffman Foundation. All findings and policy conclusions are solely those of Good Jobs First.

"State economic development spending is profoundly biased against small, local and entrepreneurial businesses," said Greg LeRoy, executive director of Good Jobs First and lead author of the study. "Our findings definitively confirm what many small businesspeople have long believed."

The 14 states where the awards were analyzed are Florida, Indiana, Kansas, Kentucky, Louisiana, Missouri, North Carolina, New Mexico, Nevada, New York, Pennsylvania, Vermont, Virginia and Wisconsin.

There is slight variation in the degree of big-business dominance among the states (80 to 96 percent of the dollars) but that is meaningless, since the programs vary as do the industrial profiles of the states. The key finding is how consistently the programs grossly favor big businesses.

The study, based on a close examination of the recipient companies, designates businesses as large or small based on their employment size as well as their total number of establishments and whether they are locally or independently owned.

“As a policy solution, we do not recommend simply reallocating deals and dollars,” said LeRoy. “These tax-break deals often mean little to small businesses. Instead, states should reform their incentive rules by tightening eligibility to exclude large recipients. The resulting savings could better fund public goods that benefit all employers and help small businesses with the persistent credit crunch.”

Short of excluding big businesses, the report recommends states spend much less on large companies by using safeguards such as dollar caps per deal, dollar caps per job, and dollar caps per company.

Good Jobs First is a non-profit, non-partisan resource center promoting accountability in economic development. Founded in 1998, it is based in Washington DC.

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