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Report: Slashing Ineffective Corporate Subsidies Can Bolster State Budgets

Washington, DC, March 21, 2011—Eliminating or reducing ineffective corporate subsidy programs can make a significant contribution to the efforts of state governments to address budget deficits, according to a report released today by Good Jobs First, a non-profit, non-partisan research center based in Washington, DC. The report, *Slashing Subsidies, Bolstering Budgets*, is available at www.goodjobsfirst.org.

"Billions of dollars are being wasted each year on subsidies that fail to deliver on their intended purpose of creating jobs and growing the tax base," said Good Jobs First Executive Director Greg LeRoy. "That money could be put to much better use."

The report presents ten case studies of wasteful programs that cost states a total of $2.8 billion per year. "These are just a sample of the large numbers of subsidies that states could target instead of cutting vital public services such as education and healthcare," said Philip Mattera, Research Director of Good Jobs First and principal author of the report.

The programs are plagued by problems such as:

Cost. Some of the programs cost state and local governments enormous amounts of money, in some cases more than half a billion dollars a year. For example, Louisiana's Industrial Tax Exemptions cost some $745 million annually; New York's Industrial Development Agencies give out some $645 million a year in tax breaks.

Poor or undocumented job-creation/retention results. Most of the programs have been criticized for failing to create or retain many jobs, especially in relation to their cost. Programs such as New Jersey's Urban Enterprise Zones have actually been found to produce zero or even negative job growth.

Disproportionate shares going to large corporations that need help the least, shortchanging small businesses. In Iowa's Research Activities Credit program, more than 80 percent of the tax breaks have been going to fewer than a dozen firms, some of them large multinational corporations.

Awards to poverty-wage employers such as retailers. Among the recipients in programs such as New Jersey's Urban Enterprise Zones and New York's Industrial Development Agencies have been large retailers such as Wal-Mart, which are known for not paying family-supporting wages or benefits.

Poor accountability practices. Many of the state agencies running the programs do a poor job of tracking how money is spent and whether the desired outcomes are achieved. The lack of clear standards in Pennsylvania's Keystone Opportunity Zone program caused one development official to refer to it as "legalized tax evasion."

Other accountability problems include poor disclosure of recipient data and conflicts of interest. The Texas Emerging Technology Fund has been accused of recurring cronyism involving major campaign contributors.

Given these drawbacks, reconsideration of such programs would make sense at any time, the report argues. There are precedents for abolishing or curtailing subsidy programs to deal with budgetary problems. In fact, as this report is published, the California legislature is considering abolition of the state's expensive and poorly performing Enterprise Zone program.

Yet there are still scores of costly and often ineffective programs that remain unexamined and untouched. Eliminating or scaling back these subsidies would by itself probably not solve the budget gap in any state, the report acknowledges, but it would make a significant contribution to the effort.

The full list of profiled programs follows:

- Iowa: Research Activities Credit
- Louisiana: Industrial Tax Exemptions
- Massachusetts: Single Sales Factor
- Michigan: Film Tax Credits
- New Jersey: Urban Enterprise Zones
- New York: Industrial Development Agencies
- Oregon: Business Energy Tax Credit
- Pennsylvania: Keystone Opportunity Zones
- Texas: Emerging Technology Fund
- Texas: Texas Enterprise Fund