



A Sober Look at Development Subsidies

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Marketing professionals and politicians alike will tell you that framing is everything. A half-carat diamond ring looks huge if you zoom in close enough. Tom Cruise looks tall on camera. And a public policy looks successful if you focus on the benefits but not the costs.

Things are no different when assessing the City's massively expensive economic development programs.

A report released last year turned an objective and critical eye toward the City's incentive practices and found that “[w]hile there may be disagreement about the value of some [incentive] packages, it is clear that *the City gains no net benefit from an extremely costly program with no real economic development impact*” (pg. 6). That’s about as damning as any finding could be. But, remember: framing is everything.

Otis Williams, Director of the city agency which administers development subsidies, wrote that the “study was conducted to show us what we’re doing well and where we can improve.” When framed this way, things don’t sound so grim.

But don’t be fooled. When the bigger picture shows that the city spends hundreds of millions of dollars—more than \$700 million from 2000 to 2014—for naught, a bleak reality emerges. Incentive policies don’t need to be improved; they need to be jettisoned or comprehensively

reformed.

When we look beyond the ribbon cuttings, temporary construction jobs, and consultant reports, we see that development subsidies like tax increment financing and tax abatement do not strengthen our economy. If they did, St. Louis would have a thriving downtown and there wouldn't be a growing operating budget deficit. At worst, these subsidies are a flat-out waste of taxpayer dollars. At best, they meddle with the market, getting developers hooked on taxpayer handouts. When we see prime property at the busiest intersection in the Delmar Loop declared "blighted," can't we agree that our policies are missing the mark?

At their core, St. Louis's incentive policies suffer from two fatal flaws. First, they assume politicians and bureaucrats know which investments are better than others. Second, the pols act as if they are spending "free money." when in fact a dollar spent on quixotic economic development projects becomes one less dollar that is available for public safety and other purposes.

But how will St. Louis stay competitive when surrounding jurisdictions use incentives? Well, before policymakers worry about how to lure companies from just over the county line—which is about all that incentives accomplish—they might do well to focus on, say, improving schools and basic infrastructure, maybe even retiring the City's debt and thereby improving its credit rating?

And if policymakers really want to attract business, why not incentivize everything—i.e., cut *everyone's* taxes—instead of just the projects of politically-connected developers? If city officials and staff are right, and incentives truly grow the economy and boost tax revenue in the long run, just imagine what a broad-based tax cut for all residents would do!

From 2009 to 2016, the tax revenue annually handed back to developers has more than doubled from \$17.9 million to \$38.1 million. Yet, today, most of our economic, social, and governmental woes persist. The answer is not more of the same. It's time to reframe the discussion on incentives.

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