New York Shouldn't Have Offered Amazon $3 Billion. No One Should Have.

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This week Amazon announced that it was scrapping its plan to establish a "second headquarters" in New York. The company's withdrawal came amidst intense political opposition from a number of elected officials and activists, mainly to the $3 billion tax incentive package the company was set to receive from the state.

The immediate aftermath of Amazon's announcement featured the kind of Democratic recriminations that are the thing of Republican fever dreams. On one side were establishment Democrats like Andrew Cuomo and Bill de Blasio, who like many politicians are conventional when it comes to tax incentive–laden economic development strategies; on the other side were Democrats like Alexandria Ocasio-Cortez, who viewed the tax incentives as denying revenue to state and local government services.

At first, conservatives on Twitter were "rooting for injuries" and joking about the Left's internecine conflicts. But eventually the conventional wisdom on the Right seemed to coalesce around the Cuomo and de Blasio perspective on tax incentives. It's crazy, they said, that AOC would have come out against a tax incentive package that would have brought (more) Amazon jobs to New York! Think of the jobs!

But while conservatives delighted in the aftermath of Amazon's exit as an opportunity to proclaim Ocasio-Cortez's economic ignorance, Ocasio-Cortez is more correct about the Amazon deal than she is wrong, and far closer to the path of good tax policy than many conservatives.

In fact, there is a larger seen vs. unseen consideration in the Amazon debate that centers not only on whether the average "economic development" project would go forward even *without* a tax incentive, but also on the overall impact of profligate tax incentive policies on governance objectives generally.

First, we cannot know for sure whether Amazon would have come to New York without, or with reduced, tax incentives, but we do know that the bookies who handicapped Amazon's search always had Virginia and New York among the favorites for the HQ2s , in no small part because both already had highly skilled workforces, to say nothing of their preexisting proximities to power. In fact, many tax incentive offers to Amazon from other states far exceeded the value of New York's . Amazon's statement on its HQ2 withdrawal from New York can easily be read not as one ultimately about the cash, but about the public relations fiasco Amazon was about to endure at the hands of New York's activist class.

The question of whether, or to what extent, incentives are necessary isn't just an issue in the case of Amazon, either, and research into the incentives that include or imply "but for" language — "but for the incentive, the project won't happen" —are helpful here. For example, a study by the W.E. Upjohn Institute published last year reveals that the vast majority of businesses that receive tax incentives under a "but-for" rubric likely would have pursued their projects even *without* the incentive : that many of these projects are getting tax incentives not because the project wouldn't happen without them, but because business interests have become accustomed to receiving them and know how to work the system to get them. The result? As local tax incentives proliferate, fewer and fewer taxpayers become responsible for greater and greater portions of local government funding.

This failure of stewardship on the part of governments across the country costs state and local taxpayers *billions* of dollars annually. That impacts not only government services, including roads and education, but also the ability of a government to reduce taxes for everyone, if it so desired. The city of Kansas City, Missouri, where I'm from, redirects $90 million annually from its budget through tax incentives, but that doesn't include the additional $45 million that those decisions also redirect from the city's public schools and other taxing districts , who rely on these tax streams but have relatively little say in their diversions.

Joining this concern with Upjohn's findings, it's clear in the case of Kansas City that tens of millions of dollars every year aren't going to kids, to roads, or to other necessary projects simply because some connected businesses want special taxing treatment for projects they would undertake even if they did not receive the incentives.

In some respects these revenue diversions are only now coming into sharper focus with the promulgation of new GASB accounting standards requiring greater transparency about the money that governments across the country are forgoing in the name of "development." If you haven't looked up how much your local and state government is giving away, you probably should; it will reframe the financial picture the next time those governments come to you claiming to be cash poor and looking for tax hikes.

Would some tax incentivized projects be withdrawn if there was no tax incentive? Certainly. Would most others proceed as planned? Evidence suggests that they would.

I'm not arguing that Amazon specifically would have come to New York with no, or fewer, tax incentives, as no one really knows the answer to that question; I'm also not arguing that New York government "deserves" to be funded at a higher level and that Amazon's HQ2 departure will allow that.

What I'm arguing is that Amazon and other private companies play state and local governments against each other for their own financial benefit , and that politicians are usually more than happy to be played for the sake of donning their hard hats and planting a spade in the ground in front of a bunch of cameras.

What's mystifying to me is that while national conservative pundits (rightfully) guffaw at the idea of ethanol and sugar cane subsidies and all the rest, that they may not view state and local tax policy failures as similarly deserving of unambiguous and pointed criticism. Perhaps in the context of the players involved – Amazon, Jeff Bezos, Alexandria Ocasio-Cortez, Bill de Blasio and Andrew Cuomo – it is simply too delicious to watch the conflagration of cultural and economic trainwrecks, and comparatively disadvantageous to say, however plainly, that both Amazon and New York will be just fine, and that these tax incentive deals are rarely in the interest of the taxpayers who subsidize them.

More to the point, conservatives would do themselves a favor by recognizing clearly, and repeating loudly, that tax incentives are not indicative of healthy "tax competition," and that deals like the one struck between Amazon and New York are instead a showcase of a national policy disease that rides the paychecks of individuals and small businesses across the country, to dole out money to the enterprises of the well-connected.

Milton Friedman was right:

> You talk about preserving the free market system. Who has been destroying it? The business community must take a large share of the responsibility. ... You must separate out being pro-free enterprise from being pro-business.

New York was pro-Amazon; it wasn't pro-market. And conservatives would do well to focus on the latter approach as their guiding principle on these and similar matters of local tax policy in the future, regardless of the state, and regardless of the players involved.

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