



TESTIMONY

April 11, 2013

LEE'S SUMMIT SHOULD NOT INSTITUTE AN ENTERPRISE ZONE

By David Stokes

Testimony Before the Lee's Summit City Council

To the Honorable Members of This Committee:

My name is David Stokes and I am a policy analyst for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state policy. The ideas presented here are my own. This testimony is intended to summarize research and analysis that the Show-Me Institute has conducted concerning the economic performance of counties that imposed large Enterprise Zones (EZ) in the 1980s to early 1990s. This testimony should not be viewed as specific support for, or opposition to, any particular plan that the city of Lee's Summit is considering beyond opposition to the general use of Enhanced Enterprise Zones (EEZ) and other subsidies as a part of economic development plans.

The dirty little secret that nobody seems to want to recognize, or even

attempt to uncover, is that EEZ, Tax Increment Financing (TIF), and other subsidies do not work. They do not succeed in growing the local economy. The panoply of subsidies that come into play when a large area is declared blighted can have a number of adverse side effects. They shrink the local tax base, encourage more government planning of the economy, and increase the chances of eminent domain abuse. As a famous Swedish economist once said, "It is not by planting trees or subsidizing tree planting in a desert created by politicians that the government can promote . . . industry, but by refraining from measures that create a desert environment."¹

Before EEZs were implemented in 2005, Missouri had a very similar program with a similar name: Enterprise Zones (EZs). How did the use of EZs impact Missouri counties that aggressively engaged them? The Show-Me Institute conducted a case

David Stokes is a policy analyst at the Show-Me Institute, which promotes market solutions for Missouri public policy.

ADVANCING LIBERTY WITH RESPONSIBILITY
BY PROMOTING MARKET SOLUTIONS
FOR MISSOURI PUBLIC POLICY

The fundamental finding of the study is that the counties that implemented EZs did no better economically than their neighboring counties that did not.

study which compared eight Missouri counties that implemented large EZs from the mid-1980s to the early 1990s to 12 bordering counties that implemented absolutely no EZs.² This subject was chosen because this situation allowed for a clear natural experiment on the success, failure, or simple pointlessness of the original EZ program.

We measured five standard economic measurements from 1980 to 2005 for these two groups of counties. We have included a copy of the study with this testimony. By the five baseline economic measurements broken down to the county level, we found that there was no difference in the economic growth between the counties that implemented EZs and those that did not. The fundamental finding of the study is that the counties that implemented EZs did no better economically than their neighboring counties that did not. Simply put, the EZs made no difference. The results of this study are directly applicable to cities in Missouri.

Whatever the numbers may be, the burden of proof is generally on the wrong foot in these debates. It really should not be the responsibility of those opposed to new programs, subsidies, etc., to prove that they do not work. It should be the burden of those who support such subsidies to prove that they do work. And supporters should not prove that they work via anecdote. They should not prove that they work with alarmist assertions such as “It would have been worse if we did not do this.” They should prove it with actual evidence.

The packet of information that Lee’s Summit released as part of this hearing includes information on page 39 purporting to provide evidence in favor of EEZs. In it, the Missouri Department of Economic Development

(DED) claims that between 2006 and 2011, EEZs generated \$1.3 billion in investment and 4,962 new jobs. There is so much wrong with this claim it is hard to know where to begin. First, at \$262,000 in tax dollars redirected for every job created, the DED should not be bragging about this. More importantly, this claim is completely lacking in any evidence the EEZs actually generated the investment. This is a classic example of bureaucrats and politicians claiming credit for something their program likely had very little, if anything, to do with. The economic literature is clear that the vast majority of investment dollars that subsidies such as EEZs claim to have generated either: 1) would have happened anyway without the subsidy, or 2) transferred the investment from areas very close by, resulting in no real growth.

Here we have data that shows Enterprise Zones in comparable Missouri counties did not appear to improve economic growth. While every type of local subsidy has differences, the overall effect is similar. Either local government planning of the economy works or it does not. The idea that EZs failed, but EEZs will succeed, is an unlikely scenario. I do not claim to have proof that an EEZ in Lee’s Summit will absolutely fail. We have evidence that similar programs in Missouri did not succeed in any measureable way. I urge you to consider this as you move forward with your discussions on the issue.

The City of Saint Louis has been using urban redevelopment tools such as Enterprise Zones and many others for half a century. How has it worked out? Colin Gordon, in his 2008 book *Mapping Decline*, documents the decline of the city of Saint Louis.³ The book’s research is exhaustive. The dominant theme of the book is the use of urban

renewal tools and tax subsidies (including EEZ) — and their absolute, total failure. From the conclusion:

The overarching irony, in Saint Louis and elsewhere, is that efforts to save the city from such practices and patterns almost always made things worse. In setting after setting, both the diagnosis (blight) and its prescription (urban renewal) were shaped by — and compromised by — the same assumptions and expectations and prejudices that had created the condition in the first place.

I can already visualize readers in Lee's Summit saying, "But we're not Saint Louis." You are correct, you are not; so do not follow a path that will make your city repeat Saint Louis' (and Kansas City's) mistakes. It is one thing for Saint Louis and Kansas City to try to these projects and have them fail. It would be even worse for a city such as Lee's Summit to follow that example with the knowledge that the entire process has failed. At least the trailblazer who takes the wrong path has an excuse.

NOTES

¹ Assar Lindbeck, long-time chair of the Nobel Prize in Economics selection committee.

² Stokes, David. "The Effectiveness of Enterprise Zones In Missouri." Show-Me Institute Case Study No. 14, January 2013.

³ Gordon, Colin. *Mapping Decline*, University of Pennsylvania Press, 2008.

***Join the fight for liberty in our state.
Become a Show-Me Institute supporter:
www.showmeinstitute.org/donate***

***This is a classic
example of
bureaucrats
and politicians
claiming credit for
something their
program likely
had very little, if
anything, to do
with.***



4512 West Pine Blvd. | Saint Louis, MO 63108 | 314-454-0647 | www.showmeinstitute.org

View State Government Spending:
showmeliving.org

Read Our Blog:
showmedaily.org

Use Our Interactive Database:
showmeideas.org

Find Us on Facebook:
facebook.com/showmeinstitute

Follow Us on Twitter:
twitter.com/showme