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analyst at the Show-Me
Institute, which promotes
market solutions for
Missouri public policy.**

TESTIMONY

May 23, 2013

WARREN COUNTY SHOULD NOT INSTITUTE AN ENHANCED ENTERPRISE ZONE

By David Stokes

Testimony Before the Warren County Commission

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 Warren County 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

Instead of attempting special subsidies for certain businesses, Warren County should focus on lowering taxes for all businesses.

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

Currently, Warren County has the highest commercial property tax surcharge in its region, and the difference is significant. Warren County's surcharge is 70 cents per \$100 of assessed valuation; Lincoln County's surcharge is a mere 14 cents. Warren County should consider lowering that tax rate for every business. That would have long-term benefits for the county.²

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 study which compared eight Missouri counties that implemented large EZs from the mid-1980s to the early 1990s to 12 bordering counties that did not implement any EZs.³ 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 calculated 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 and counties throughout 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.

In advocating for EEZs, the Missouri Department of Economic Development (DED) has claimed that between 2006 and 2011, EEZs generated \$1.3 billion in investment and 4,962 new jobs.⁴ There is so much wrong with this claim it is hard to know where to begin. 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 Warren County 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.⁵ 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 citizens in Warren County 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’ mistakes. It is one thing for Saint Louis to try to these projects and have them fail. It would be even worse for a place like Warren County 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.

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NOTES

¹ Assar Lindbeck, longtime chair of the Nobel Prize in Economics selection committee.

² The Warren County commercial property tax surcharge is 70 cents per \$100 dollars of assessed valuation. St. Charles = 53 cents, Lincoln = 14 cents, Montgomery = 34 cents, Franklin = 48 cents, Gasconade = 31 cents.

³ Stokes, David. “The Effectiveness of Enterprise Zones In Missouri.” Show-Me Institute Case Study No. 14, January 2013. View online here: <http://showmeinstitute.org/publications/case-study/corporate-welfare/883-ezs-in-mo.html>.

⁴ Lee’s Summit, Mo., EEZ application packet, page 39.

⁵ Gordon, Colin. *Mapping Decline*, University of Pennsylvania Press, 2008.

***This is a classic
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