



TESTIMONY

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COMMENTS REGARDING THE ST. LOUIS ECONOMIC DEVELOPMENT ACTION PLAN

By David Stokes

Submitted to the St. Louis Economic Development Corporation

1. *Where does your neighborhood need the most support to thrive and have opportunities for all?*

St. Louis neighborhoods all need the same thing, albeit to varying degrees in various places. Every St. Louisan needs and deserves safe neighborhoods, good schools, quality transportation options, access to parks, and a fair tax system to fund those public goods. While it may be easy to say (or write) those words, making all of that happen in reality is harder. Nobody disputes the difficulty of managing a Midwestern city in the post-industrial era. Admitting it is difficult is a statement, though, not an excuse. However you measure the political and economic decisions made by St. Louis leaders over the past half-century and more, it is hard to say most of those choices been successful.

In the realm of economic development, the failures have been especially striking. For years, tax giveaways of all types to developers and politically connected businesses have been there for the asking. The City of St. Louis has been liberal in its use of tax incentives and subsidies to support development within the city. St. Louis, in fact, uses these programs so often that if they worked, St. Louis would be the Kuwait of the Midwest. But they have not worked, and the continued decline of the city's population and economic base stand as proof. The officials in charge of economic development in the City of St. Louis can't predict the future. It is impossible for them to make their subsidy decisions outside of political pressures and favoritism.

To give just one example: for years, the Land Clearance and Redevelopment Authority (LCRA) has been an impediment to returning foreclosed property to the people of St. Louis. The LCRA has preferred to hold property in pursuit of large-scale developments that rarely materialize, while too often resisting efforts by individual homeowners to access LCRA resources.¹

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

St. Louis needs a growth-oriented tax system that is fair and equal for all. That means lower, flatter rates for everyone, and not high taxes for the many and special deals for the influential few.

2. *In what ways can SLDC make sure your neighborhood is aware of, has a role in, and benefits from new development?*

SLDC can stop showering the city's subsidies and tax incentives on the neighborhoods that need them the least. The Central West End is thriving. The thing it most needs is better police protection, not unnecessary tax subsidies that make it more difficult to pay for that very same police protection. SLDC should stop favoring one part of the city over another. It should significantly reduce its use of tax subsidies and economic central planning within the city. That move, itself, would benefit the entire city.

3. *What do Black, Brown, and Immigrant-owned businesses need to start, succeed and grow in your community?*

Entrepreneurs of all backgrounds need the same things to succeed. They need reliable provisions of public services, and first and foremost that includes public safety. They need a tax system that does not punish working and saving, as the current St. Louis tax system does with the earnings and payroll taxes.² Entrepreneurs should not be burdened with unnecessary licensing requirements and regulations, and the city's complicated licensing codes do just that.³

Public policy intended to encourage entrepreneurship would be more effective if it improved the economic and social environment within which all entrepreneurs from every background operate. This would mean improving the tax climate, labor market conditions, and educational attainment of the population. Given that St. Louis is not a low-tax city, has an overly complex licensing and regulation system, and has a poor record in educational attainment by its citizens, these are several issues that need to be addressed if St. Louis is to attract and support entrepreneurs who will spur economic development.

4. *How should we be building a stronger workforce and providing access to jobs in your community?*

Targeted tax credit, incentive, abatement, and subsidy programs are a poor strategy for promoting economic development in St. Louis.⁴ Whether it is TIF, a TDD, a CID, or any of the other local subsidy packages, these programs defeat the purposes that supporters usually cite in their favor: encouraging employment and helping St. Louis compete. In short, tax credits, abatements, and subsidies are a form of wealth redistribution—we all bear the cost, but only special interests and favored industries benefit.

Auditors of both parties in Missouri have reviewed the records of tax subsidy programs and have consistently found that they do not live up to promises and expectations. According to an audit by former State Auditor Susan Montee, tax credits cost more, and have less of an impact, than predicted. Montee reviewed 15 major tax-credit programs in Missouri and found that the fiscal notes underestimated the total cost of the programs by \$1.1 billion over a five-year period⁵. The East-West Gateway Council of Governments similarly determined that the uses of TIF in St. Louis did not create the jobs that proponents of TIF and various developers had promised and that the tax subsidies were overly generous.⁶ These findings are consistent with the larger body of research on this subject.

The government has no special ability to predict which businesses and industries will succeed. Yet tax credits are an attempt to identify and subsidize future successes. Unfortunately, in the game of picking winners and losers, city government almost always picks losers. This is because tax subsidies, abatements, etc., are an attempt to protect companies and industries that the market has already rejected to some degree. If they were successful and viable on their own, these companies and industries wouldn't need to seek the favor of the government.

The government will never have the amount of information required to successfully predict economic growth patterns. That is impossible. Knowing that, how can the state possibly have a chance at encouraging the right businesses and developments with tax dollars? Government officials should not be trying to decide who wins and who loses in the marketplace. They should allow developers and businesses to succeed or to fail as a result of their own efforts and the preferences of consumers.

St. Louisans would be better off if the city government took a hands-off approach to economic development instead of providing subsidies to private companies. Consumers would benefit because they would be able to purchase goods at a lower cost instead of subsidizing private firms with their tax dollars. Producers in other industries would also benefit, because they would not be forced to compete at an artificial competitive disadvantage. St. Louis residents would be better off if the state government widened the tax base by eliminating targeted tax credits instead of continuing to subsidize specific industries in the market. The region would be better off if its resources — human and otherwise — were employed in activities that do not require subsidies. As a direct consequence, the region would have the capacity to produce more, and individuals would be able to keep a greater percentage of their income.

St. Louis's tax subsidy and incentive programs have not fulfilled their stated purposes, and spending more on them will not likely result in better outcomes. St. Louis's tax dollars would be much better spent in the hands of individual St. Louisans than on enticements for politically connected developers. If St. Louis's government officials—both elected and appointed—are serious about promoting economic development, they will stop attempting to pick and choose the economic activities that occur within its borders. This strategy didn't work for the Soviet Union, and it won't work for St. Louis, either.

5. *What else should be on this list? What did we miss that feels important to you in achieving this goal?*
(From Stokes / Baier)

If the city wants to support entrepreneurs and economic development, it should take advantage of its recent Federal stimulus monies and NFL litigation windfalls to finally move in the direction of phasing out the city's harmful earnings and payroll taxes. Leaders routinely say that the city can't afford to fund important services without the earnings tax. Honestly though, could the City of St. Louis operate without the earnings tax if the residents and voters wanted to do so? Of course it could.

Most large cities in the United States do not have local income taxes. One problem (of several) with the property tax subsidies and abatements the city readily gives

away is that they make it impossible to rely less on the earnings tax and more on local property taxes, which is how many comparable cities fund their local services. Nobody says it will be easy to phase out the tax, which brings in an estimated \$159 million per year. But if voters decided to end it, during the 10-year phase-out period an overall effort toward ending corporate welfare, internal consolidation (e.g. the ongoing effort to combine 911 emergency call centers), raising alternative (and less economically harmful) taxes, budget cuts, continued pension reforms, service sharing with other governments (e.g., the shared Metro Air Support police helicopter unit), and privatization efforts (e.g., the water utility) would allow St. Louis to continue to fund necessary services. It bears repeating that most comparable cities, including Chicago, Memphis, Omaha, Tulsa, and Nashville, fund their local services without local income taxes.

These recent windfalls for the city can give it the short-term flexibility to phase out the earnings tax. The city should take advantage of this timing and remove the one tax that is its largest, fiscal impediment to economic growth.

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ENDNOTES

1. Spalding, Audrey, “Standstill: Is Saint Louis Hindering Development by Waiting for Large-Scale Miracles?” Show-Me Institute Policy Study No. 27, April 2011.
2. Haslag, Joseph, “How an Earnings Tax Harms Cities Like Saint Louis and Kansas City,” Show-Me Institute Policy Study No. 1, March 2006.
3. St. Louis City License Collector’s Office: <https://www.stlouis-mo.gov/government/departments/license/business-license-info/index.cfm>
- 4 .Lester, T. William, & El-Khattabi, A. Rachid, “Does Tax-Increment Financing Pass the But-For Test in Missouri?” Show-Me Institute Policy Study No. 41, November 2017.
5. Missouri State Auditor, “Tax Credit Cost Controls,” Audit Report 2010-47, April 2010.
6. East-West Gateway Council of Governments, “An Assessment of the Effectiveness and Fiscal Impacts of the Use of Development Incentives in the St. Louis Region,” Final Report, January 2011.



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