



TESTIMONY

August 24, 2022

ORDINANCE NUMBER 220701: KANSAS CITY SHOULD NOT REPLACE ROLE OF ELECTED OFFICIALS IN DETERMINING TAX SUBSIDIES

By David Stokes

Testimony Before the Neighborhood Planning and Development
Committee of the Kansas City Council

TO THE HONORABLE MEMBERS OF THE COMMITTEE:

My name is David Stokes, and I am the director of municipal policy for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state and local public 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 tax subsidies and the political process used to enact them. This testimony should not be viewed as specific support for, or opposition to, any particular plan that the city of Kansas City is considering beyond opposition to the general use of tax

subsidies, including tax-increment financing (TIF), tax abatements, enhanced enterprise zones (EEZs), and other subsidies as a part of economic development plans, along with opposition to the proposal in this ordinance to substantially reduce the role of elected officials in approving these subsidies and turn that role over to the appointed positions of city manager and city finance director.

The dirty little secret that nobody seems to want to mention is that TIFs, EEZs, property tax abatements and many other types of tax 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

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local tax base, encourage more government planning of the economy, reward those with political connections, 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.”

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 established them? The Show-Me Institute conducted a case study comparing eight Missouri counties that implemented large EZs from the mid-1980s to the early 1990s to twelve bordering counties that did not implement any EZs. This comparison allowed for a clear natural experiment on the success, failure, or simple pointlessness of the original EZ program. The fundamental finding of the study was 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, including Kansas City. The findings were also perfectly consistent with strong preponderance of the economic literature on tax subsidies, which is clear that the vast majority of investment dollars that subsidies such as TIFs, EEZs, etc., claim to have generated either: (1) would have happened anyway without the subsidy, or (2) resulted from the transfer of investment from areas very close by, resulting in no real growth.

Whatever the numbers and analysis may be, the burden of proof is generally misplaced 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 through anecdotal evidence. They should not prove that they work with alarmist assertions such as “It would have been worse if we did not do this,” or “nobody is building affordable housing in Kansas City,” which is demonstrably untrue. To prove the value of these subsidies should require actual evidence. In my substantial experience of reviewing subsidy

proposals by local governments in Missouri, the use of actual evidence to support subsidy proposals is decidedly rare.

Ordinance 220701 contains two very bad ideas. First, it would automate the process by which subsidies are granted. It would remove the requirement of an independent financial analysis of the subsidy request. While those independent financial reports generally have been biased in favor of developers, at least they provided an attempt to justify the tax subsidy request. This ordinance would remove even that small attempt at independent review. Furthermore, by standardizing the package of incentives available, the city is inevitably going to increase the requests for subsidies from developers. When you make something both easier to receive and cheaper, you are going to get more requests for it. For a harmful activity like tax subsidies, that is moving in the wrong direction. It reverses the small progress Kansas City has made in recent years to reduce the use of tax subsidies and limit the total amount of other people’s money given away.

Second, the removal of elected officials from the decision-making process and empowerment of the city manager and finance director to implement tax subsidy decisions is a direct attack on local democracy. Decisions about selectively granting political favors such as tax subsidies should be made by elected officials responsible to the voters, not by bureaucrats acting independently of transparency and oversight. I can foresee some politicians in the near future embracing the opportunity to tell the voters, “I tried to stop those subsidies, but the city manager overruled me. I wish I could stop them, but I just can’t now.” Elected officials need to take ownership over decisions that divert taxpayer money to benefit private interests. Moreover, making tax subsidies as routine as garbage pick-up or street sweeping should *not* be the goal. These subsidies should be the exception to the rule, not the standard procedure. The proposals in Ordinance 220701 to make them standard fare decided upon by appointed personnel instead of public decisions voted on by elected officials is a terrible public policy choice.

Thank you for the opportunity to submit this testimony to the committee.

ENDNOTES

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.



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