

A Common Sense Approach to Economic Development

Much has been said, by myself and others, on the use of incentives to spur economic activity. Specifically, the use of tax abatement, tax increment financing districts, and urban enterprise zone legislation. It is ironic that all these incentives feature reduced or redirected tax dollars; the same thing I seek. The difference is, I seek this for all taxpayers.

If I seek the same, why not support the use of these incentives? The burden is on me to make the case, so here goes.

The use of these incentives is very costly to all other taxpayers. Why is that? The city, county, school corporation, township, etc. all have consistently increased their demand for tax dollars each year for at least the last two decades. Each unit usually goes up the statutory maximum every year. The tax base (Net Assessed Valuation) that pays this money is not increasing at nearly the rate of the demand on it. A large part of the reason it is not increasing is because new NAV is kept out of the equation by tax abatement, TIF districts, and UEZ's. One can easily do the numbers but it is inescapable that when the same tax base has to provide a higher amount of money, the tax burden will go up for each taxpayer. This is a mathematical fact.

These incentives may or may not cause some type of economic development to occur, no one really knows. The costs of the incentives are certainly known, they are real, they are substantial, and you will pay those costs. In addition, you will also lose the opportunity to decide for yourself how to spend that money you would have had if the potential tax base had not been arbitrarily reduced. When an elected official is dealing with other people's money, I say go with known results not hopeful guesses.

The use of these incentives is fundamentally unfair to all other taxpayers. Suppose for a minute that these economic development schemes do prompt some activity to occur. If that is the case, logic tells us to abate all new activity and carve up the entire city and county into TIF districts and UEZ's. Doesn't Twelve Points deserve as much of a boost? How about the Central Eastside Merchants? Don't forget the potential of South 13th Street! Meadows Center? Plaza North and Ft. Harrison Avenue? (insert your location here)? Of course they deserve as much effort as anywhere. If we are talking about jobs, do we value an industrial job more than a paralegal, restaurant manager, salesperson, insurance agent, farmer, or other job? Is one employer with 1000 jobs more desirable than twenty with 50 jobs or two hundred with 5 jobs?

The answer is that all are desirable, all contribute to our community, and all should be encouraged. Analysis in this manner exposes the inherent unfairness and inequity when government doles out incentives for some and denies them for others. Neither economic development experts, city councils, nor anyone else is capable or qualified to pick the winners and losers. We end up with public policy that, at best, only shuffles around economic activity. At worst, it adds a burden that results in less, not more, business and jobs in our community. It is the free market where the winners and losers are chosen by all of us. It is the obligation of government to insure we all have the opportunity to make our own choices, with our own money, in that market.

The use of these incentives does little or nothing to influence economic activity. A local plant manager has stated that his firm would immediately cross off any community that would not offer an abatement or similar incentive. Nothing could be further from the truth. Decisions on locating or expanding are never made in a vacuum. There are literally hundreds of factors that come into the decision making process. While costs of taxes are certainly one, it is far from the only decisive factor. It is true that a tax incentive is a bonus

for a company but is it the best for a community to offer? No, it is not. In fact, a lower, more competitive tax rate is the factor with regards to taxation that always trumps a temporary incentive. Couple a low tax rate with efficient delivery of government services and you have the most powerful economic development tool a community could have. As demonstrated in the first section, these incentives actually increase our tax rates thus increasing the actual tax burden. We are, in reality, making ourselves less competitive, not more, when we offer these incentives!

I only briefly touched on the other half (and by far, the most critical portion) of this discussion. That involves reaching that lower, more competitive tax rate. If an elected official thinks that saying no to a tax incentive would be hard, wait till they tackle a budget to wring out a significantly lower tax levy. That is where the real heavy lifting is, where the debate will become emotionally charged, where the rhetoric will fly. It is here that a completely different approach to our local government would have to take place. If you want true opportunity in the future for every member of our community, this is where it will start **and the time to start is now.**