

RESEARCH SUMMARY

Targeted Economic Development Subsidies Don't Work: Negligible Community Benefits and Economic Development

Many government officials consider targeted economic development subsidies key to economic development. In a recent survey of 110 mayors, for example, more than 8 out of 10 said targeted incentives are a good idea. In reality, economic development subsidies only help their corporate recipients and the politicians that supply them. Other companies, local residents, and the economy at large are harmed.

In “[The Economics of a Targeted Economic Development Subsidy](#),” Matthew D. Mitchell, Michael D. Farren, Jeremy Horpedahl, and Olivia Gonzalez provide a comprehensive analysis of the effects of economic development subsidies. Their estimates are based, in part, on the broad body of peer-reviewed academic research that finds that subsidies have little to no effect on where companies choose to invest. This means that the expected gross benefits of such subsidies should be substantially reduced. Furthermore, the authors incorporate the economic impact of the higher taxes needed to pay for the subsidies. They find that in the case of Wisconsin’s subsidies to Foxconn, the net effect of the subsidies will likely *reduce* future economic activity in Wisconsin by \$370 million to \$19.2 billion.

FOXCONN IN WISCONSIN: A CASE STUDY OF SUBSIDY FAILURE

In 2017, Wisconsin struck a deal with Taiwanese company Foxconn to manufacture large LCD screens within the state. Foxconn was supposed to make a \$10 billion investment and create up to 13,000 jobs. In return, Wisconsin would do the following:

- Provide up to \$3.6 billion to Foxconn in tax breaks and other subsidies
- Exempt Foxconn from certain environmental regulations
- Provide billions more in local government, utility, and infrastructure subsidies

Just two years after the deal, Foxconn is already renegeing on its commitments and is building a much smaller \$2 billion to \$3 billion facility that will employ far fewer workers. This should be no surprise, given a recent Wisconsin state audit finding that, on average, subsidized firms create only 34 percent of the jobs they promise.

THE PUBLIC DOES NOT WIN WITH ECONOMIC DEVELOPMENT SUBSIDIES

Despite their promises, subsidies are bad for the communities that provide them. Subsidies cause economic harm in the following ways:

- *Subsidized companies are made less efficient.* By allowing firms to shift costs onto taxpayers, subsidies allow firms to have higher production costs and to be less attentive to customer desires.

- *Entrepreneurs are encouraged to seek favors.* Subsidies encourage entrepreneurs to develop new ways to obtain political privilege rather than new ways to lower costs or enhance consumer welfare.
- *Nonsubsidized companies are harmed.* They are saddled with the tax cost of the subsidies given to their competitors.
- *Taxpayers foot the bill.* Scarce public resources, which could otherwise fund public services or tax cuts for all, are instead wasted encouraging business decisions that would likely be made anyway. These taxes, in turn, discourage other economic activity.
- *Communities are put at risk.* Subsidies can encourage overspecialization within a region, making communities more vulnerable to economic downturns.

KEY TAKEAWAY

Economic subsidies rarely sway where a company chooses to invest. Instead, companies prefer locations that offer productive workers, efficient business logistics, and access to region-specific resources. Subsidies turn companies' attention away from satisfying consumers, cost taxpayers billions of dollars, and generally don't create the economic development they claim. Subsidies may harm the long-term health of the companies that receive them. And from a broader perspective, they are almost certainly harmful for economic development.