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Making Sense of Incentives

Taming Business Incentives to Promote Prosperity

Timothy J. Bartik, *W.E. Upjohn Institute*

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KALAMAZOO, Mich.—In recent months, “Foxconn” and “Amazon HQ2” brought immediacy to a costly and lingering subject: economic development incentives. State and local policymakers regularly dangle tax breaks and other financial incentives as lures to attract and sometimes retain businesses and the jobs they say they’ll create. Oversight of these programs is often weak or nonexistent, yet tens of billions of taxpayer dollars are spent each year on these efforts. In the cases of Foxconn and Amazon, billions were offered for each project. Are these incentives worth the price? How do we know? Are they effective at promoting job growth? Is there a better way to grow good-paying jobs in a local labor market?

These questions and more are answered in a new book by Timothy J. Bartik, the nation’s foremost authority on economic development incentives, titled ***Making Sense of Incentives: Taming Business Incentives to Promote Prosperity*** (Upjohn Press, 2019). The book is relatively brief, straightforward, nontechnical, and just what state and local policymakers need to read. It is also available as a free download.

Bartik begins by explaining the basics: What *are* economic development incentives? Who offers them? Why are they offered? What are the political and economic considerations involved? Why are incentives often wasteful? He then delves into the recent trends in business incentives, including how generous offers have become and whether they threaten needed public services (especially K–12 education), which types of firms tend to receive incentives, and whether needy areas tend to be targeted.

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Policymakers often tout the multipliers associated with jobs created via business incentives—e.g., for every one job created another two jobs will appear as a result. But Bartik shows that these numbers are often specious, and why, while providing more realistic estimates.

Then, based on his decades of ground-breaking research, he explains what policymakers can do to improve the use of business incentives. Bartik doesn't think incentives should be ruled out, just improved, and he explains how this can be achieved. And in his chapter on how to evaluate the success of incentive programs, he describes the program details that need to be considered, and how to use them, in order to judge whether the benefits of incentives exceed the costs.

Bartik goes on to describe what he sees as an ideal state incentives program, what the federal government's role should be in overseeing state and local incentive programs, and a path forward for policymakers to follow.

Bartik concludes, "To promote broadly shared prosperity, incentives shouldn't be eliminated. [They] should be tamed. This taming requires some cutbacks of what we currently know as incentives. It also requires reforms. Remaining incentives should be more short term and emphasize business services more. The incentive animal needs to go on a more nutritional diet. Only after such taming can incentives make sense. Only then can incentives help build prosperity for all."

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"With this book, Tim Bartik has solidified his rank as the leading, trusted expert on economic development incentives and economic development broadly. The role of firm-based incentives has triggered passionate debate, and Bartik responds with rigor, reason, and realism. I hope readers heed the call for needed reforms recommended in this timely book."—Amy Liu, Brookings Institution

"Economic development incentives are one of the biggest boondoggles of our time, draining away tens of billions of dollars of precious taxpayer dollars, with some states and cities offering as much as \$7 billion to lure Amazon's much-ballyhooed HQ2. No one understands the intricacies of economic development incentives—what works and what does not—and the broader field of economic development policy and strategy better than Tim Bartik. This book is an absolute must read for mayors, governors, economic developers, city-builders, CEOs and business executives, community activists, and all those concerned about the future of our cities and communities."—Richard Florida, University of Toronto

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Timothy J. Bartik is a senior economist with the W.E. Upjohn Institute for Employment Research. He received his PhD in economics from the University of Wisconsin–Madison in 1982. Prior to joining the Upjohn Institute in 1989, he was assistant professor of economics at Vanderbilt University.

Making Sense of Incentives: Taming Business Incentives to Promote Prosperity, by Timothy J. Bartik, is published by the W.E. Upjohn Institute for Employment Research. October 2019. 178 pp. \$14.99 paper 978-88099-668-6 / ebook 978-0-88099-669-3 / [PDF is free at http://research.upjohn.org/up_press/258/](http://research.upjohn.org/up_press/258/). Opinions expressed are solely those of the author. We encourage you to request a review copy of this book. Author interviews are available. Contact: Richard Wyrwa: wyrwa@upjohn.org.

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