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The Hidden Costs of Corporate Tax Breaks

They rarely deliver the broad economic benefits they promise, finds a new study.

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When New York state and city officials announced in 2018 that they were prepared to give Amazon nearly $3 billion in tax subsidies to build a new headquarters in Queens, proponents of the deal predicted an economic windfall for the region. They argued that the company's arrival would bring not only the twenty-

five thousand jobs that Amazon vowed to create but billions of dollars in revenue for local construction firms, restaurants, retail shops, and other businesses. Critics countered that the $3 billion would be better spent shoring up the city's public schools, physical infrastructure, and social services.

A new paper by economists Cailin R. Slattery of Columbia Business School and Owen M. Zidar of Princeton University suggests that the critics, who ultimately helped to derail Amazon's plans, may have been right. In a review of hundreds of tax-incentive packages awarded to US corporations in recent years, the researchers found that such deals rarely deliver the broad economic benefits they promise.

"It's not as if they *never* have spillover benefits, but on average we don't see any," says Slattery. "Some projects will provide a bit of a boost to the surrounding economy, but that's not the energetic result you expect to see, considering how these deals are being promoted by the companies and governments that make them."

According to Slattery, elected officials in the US have been relying heavily on tax abatements to lure employers to their districts since the 1990s. States and municipalities currently sacrifice at least $30 billion annually — or 40 percent of their potential corporate tax revenue — through such subsidies, her research shows. And while these tax breaks have proved to be a reliable, if costly, means of locking down jobs in particular locations, Slattery says that they may be having a detrimental impact on the US economy as a whole, since they siphon money away from public education and infrastructure projects that support long-term economic growth.

There are potential solutions, though. Slattery points out that the EU has prohibited local and regional governments from granting tax subsidies to large companies; instead, such incentives are awarded only at the national level, with the tax relief going to employers that open facilities in economically depressed areas.

"The Europeans are using these kinds of tax incentives very strategically, to help generate economic growth in places that really need it," she says. "But in the US, we have a situation where cities and states are all competing against one another and driving up the size of the incentive packages, which is very advantageous for firms but not necessarily for the public."

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