# Investments in the Marketplace

## How States Help Businesses Succeed

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In its simplest form, the goal of economic development is more jobs and higher wages. States invest in the business marketplace and measure success based on where firms locate, whom they hire, and whether they profit. Most evidence, however, shows that government investment is not the primary driver of business decisions or outcomes. Governments should target their scarce resources toward gaps in support that businesses cannot fill through the private marketplace.[1]

**$45 BILLION**

**The annual estimated value of all state and local economic development tax incentives in the United States [2]**

## Types of Marketplace Investment

Governments invest in the marketplace by helping new businesses launch and expand and by directly increasing demand for local goods through state purchases.

### TAX INCENTIVES

The estimated annual value of all state and local economic development tax incentives is $45 billion. Governments use them in an attempt to lure companies and jobs to their state and ultimately boost economic activity.

Research suggests that real economic activity is fairly unresponsive to changes in taxes. But tax incentives are alluring to policymakers because they usually have a higher short-term political return than longer-term policies, such as investments in education or infrastructure. Likewise, the risk of losing a major company to another state or city because of competing incentives means some governments will offer incentives to retain businesses that might have little intention of moving, such as Maryland

*The National Center for Economic Gardening allows participating states to identify businesses that are poised to grow. The selected companies then receive a comprehensive and precise analysis of their business and market from experts at the NCEG.* [3]

## Manufacturing Extension Programs

Extension services for manufacturing, similar to those for agriculture, are found in every state because of the National Institute of Standards and Technology's Hollings Manufacturing Extension Partnership (MEP). These services include everything from basic business planning to sponsoring research or development. Research identifies manufacturing extension services as one of the most effective programs a state can implement, producing one of the highest returns on investment. The MEP is administered differently in each state, sometimes affiliated with a community college (e.g., in Delaware) and sometimes with a state agency (e.g., in Arizona). Research suggests that MEPs increase labor productivity and, for single-unit companies, reduce the rate of facility closure.

and Montgomery County's $62 million incentive package to keep Marriot Hotel's headquarters in the county.

Tax incentives may be designed to benefit different entities:

- **For larger firms that want to relocate,** states often enter into a contract in which the company agrees to invest a certain amount or hire a certain number of people in exchange for tax credits and cash incentives. For example, the Minnesota Job Creation Fund requires applicant firms to list the types of jobs they are creating and their wages before distributing funds.
- **Expanding businesses** are the source of most new jobs in a state. In its 2014 annual report, the Georgia Department of Economic Development highlighted that 69 percent of all projects receiving assistance were expansions. But expansion also necessitates infrastructure and skill developments that, if not addressed, can encourage relocation out of state.
- **Geography-based programs,** such as enterprise zones, can highlight the benefit of coordinating programs from different agencies. States may adopt enterprise zone programs to distribute economic development programs geographically, target specific parts of the state for enhanced programs, and thereby mitigate lagging economic conditions or other shortcomings.

### OTHER BUSINESS ASSISTANCE

Although tax incentives often target large, profitable businesses and require them to create a certain number of jobs, state and local governments offer three additional types of business assistance that typically target new or small- and medium-size firms:

- **General business support** includes technical assistance, programs that help revitalize small businesses in downtown (or main street) areas, and networking and mentorship resources. States appropriate about $4 billion annually to economic development agencies, the primary agent for business assistance.
- **Financing** includes state-funded loans, equity investments, and direct subsidies to businesses in need of capital. States may target their loan programs to specific industries or types of businesses. Alaska has a loan assistance program specifically for commercial fisheries, and Minnesota offers short-term loans to small businesses affected by military reserve call-ups.
- **State procurement programs** allow states to use their own spending to encourage the growth of local businesses and the economy. These include state set-aside programs such as the District of Columbia's Certified Business Enterprise Program, which provides a preference to DC-based firms pursuing government procurement opportunities in the District.

[2] See the National Center for Economic Gardening, accessed February 28, 2017. *https://www.nationalcentereg.org/*.

[3] Timothy J. Bartik, *A New Panel Database on Business Incentives for Economic Development Offered by State and Local Governments in the United States* (Kalamazoo, MI: W. E. Upjohn Institute for Employment Research, 2017).

[1] For more information, see Norton Francis and Megan Randall, *State Economic Development Strategies: A Discussion Framework* (Washington, DC: Urban Institute, 2017). http://www.urban.org/StateStrategies.