Preferable Alternatives:

The Cost of Business Subsidies in Illinois

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EXECUTIVE SUMMARY

Illinois has been using economic development incentives to attract businesses and create jobs for decades. In light of the recent Foxconn deal in Wisconsin and Carrier deal in Indiana, it is timely to tackle the ever-present question of whether subsidies are more economically favorable than investments in alternative projects, such as infrastructure and education. Illinois residents are rightfully concerned about how government spends their hard-earned tax dollars following the protracted two-year budget impasse that resulted in a tax hike. With the state facing $251 billion in unfunded pension liabilities and $15 billion in overdue bills, Illinois cannot afford to waste tax dollars on poor investments and bad deals.

Most basically, economic development subsidies have the potential to negatively impact the economy if they come at the expense of other productive public goods. Whereas business subsidies generally accrue to the richest households and have little "trickle-down" effect on the middle class, broad-based investments in infrastructure and in people improve connectivity, increase worker skill levels, spur innovation, and raise consumer demand.

Governments in Illinois have spent an inflation-adjusted **$4.9 billion** in state and local business subsidies since 2000. This means that Illinois has spent an average of at least **$288.5 million** annually in business subsidies (adjusted to constant 2017 dollars). These business subsidies have saved or created an estimated 1,700 jobs per year. However, these economic development dollars could have been put to better use on:

1. **Public Infrastructure.** This would have created or saved nearly 3,900 total jobs per year. The economy lost over 2,100 jobs per year and $136 million in annual economic activity by doling out business subsidies instead of investing in infrastructure.

2. **Public K-12 Education.** This would have created or saved over 6,100 jobs per year, including 4,300 direct jobs at public schools. The economy lost about 4,400 jobs per year and $189 million in annual economic activity by spending taxpayer dollars on business incentives rather than public schools. Instead of subsidizing large corporations, Illinois could have added one teacher to every single public school in the state over the past 17 years.

3. **Higher Education.** This would have created or saved over 3,400 jobs. The economy lost about 1,700 jobs per year and $162 million in annual economic activity by not funding higher education.

4. **Working-Class Tax Credits.** Doubling the state's Earned Income Tax Credit (EITC) match to 20 percent would have created or saved over 2,500 jobs per year, about 800 more than were created through business subsidies. The economy lost $74 million in annual gross state product by not doubling the EITC.

5. **Balancing Budgets.** Since economic development incentives increase the budget deficit, they contribute to the next credit rating downgrade, which costs taxpayers and reduces investor confidence. Thus, subsidies can come at the expense of both taxpayers *and* reduced investment from other companies that do not receive subsidies.

Economic development incentives are an inefficient way to spend taxpayer dollars because they are less effective than the policy alternatives. Rather than using valuable taxpayer dollars to subsidize large corporations, Illinois should pursue broad-based investments in people and infrastructure which would create a larger and longer-lasting impact on the state's economy.

INTRODUCTION

In the American free market, metropolitan areas and states compete with one another to attract business growth and expand the tax base. Illinois has been using economic development incentives to attract businesses and create jobs for decades, yet the effectiveness of these incentive packages is up for debate. In light of the recent announcement that Wisconsin awarded Foxconn, a Taiwan Electronics Manufacturer, roughly $3 billion in taxpayer incentives – and some arguing that the deal comes at a loss to Illinois (Maisch, 2017) – it is timely to tackle the ever-present question of whether subsidies are more economically favorable than investments in alternative projects. Illinois residents are rightfully concerned about how government spends their hard-earned tax dollars following the protracted two-year budget impasse that resulted in a tax hike. With the state facing $251 billion in unfunded pension liabilities and $15 billion in overdue bills, Illinois cannot afford to waste tax dollars on poor investments and bad deals (Egan, 2017).

This report is the third in a series of Illinois Economic Policy Institute (ILEPI) studies on economic development incentives in Illinois. In the first report, ILEPI summarized the costs of subsidizing private corporations and examined deals with three companies that have received over $900 million from Illinois taxpayers: Sears, Mitsubishi Motors, and Motorola (Craighead, 2017a). The second study investigated the geographic location of the business subsidies and finds that the subsidies favor municipalities that are majority white and have poverty rates below the statewide average, contributing to social inequities in Illinois (Craighead, 2017b). This third analysis is an evaluation of the economic costs of business subsidies in Illinois since 2000. While the two previous studies evaluated costs in nominal terms, this study adjusts subsidy values since 2000 for inflation. The economic impacts of business subsidies are compared to five policy alternatives:

1. Investing in public infrastructure;
2. Increasing public K-12 education funding;
3. Increasing higher education funding;
4. Providing working-class tax credits; and
5. Taking no action and balancing budgets.

ECONOMIC RESEARCH ON BUSINESS TAX INCENTIVES

There are many reasons why local policymakers may use business tax incentives as tools of economic development. First, regardless of whether the subsidies are effective, they often provide elected officials with a positive public relations opportunity because the media highlights ribbon-cutting activities. Second, political conditions play a key role, with elected officials in competitive areas using tax incentives as a way to differentiate themselves from political opponents. Third, proximity to major urban areas is also a factor. There is generally more competition for jobs near metropolitan areas, so local leaders go to great lengths to attract businesses. Finally, research has found that "low manufacturing intensity was associated with industrial parks, consistent with the notion of an 'if you build it, they will come' mentality" (Betz et al., 2012).

However, the peer-reviewed economic research generally finds that economic development incentives have little to no effect on economic outcomes (Betz et al., 2012). Many firms see very generous incentives as an indication of a "profligate" state or a local government that may be spending beyond its means, reducing the quality of public services (Peters & Fisher, 2004). This lowers business confidence and limits the number of new establishment openings in a local economy, offsetting any positive effects. Further research on Ohio businesses found that incentives did not increase employment growth and, in fact, may have resulted in a decrease in jobs (Gabe & Kraybill, 2002). A key finding in the study was that businesses that received incentives tended to overestimate their future employment by 28.5 jobs on average, misrepresenting their hiring plans in order to extract a larger incentive package from the government

(Gabe & Kraybill, 2002). Another analysis of a job tax credit in Georgia found that, while the incentive did create jobs, between 72 percent and 77 percent of the employment change would have occurred in the absence of the credit (Faulk, 2002).

Tax increment financing (TIF) is one example of an economic development incentive used by local governments to spur development. TIF funds have been used by the City of Chicago and other communities in Illinois over the past three decades to remediate economic blight and to foster industrial development in targeted areas. In TIF districts, the amount of property taxes paid to local governments is frozen for a specified period of time, typically 23 years. Any additional property tax revenue is diverted into the TIF district's fund and used to support private development projects in the area (Bruno & Dickson Quesada, 2011). The important feature of a TIF is the "but for" test. Tax increment financing is intended to spur development that would not have occurred "but for," or in the absence of, the public intervention. Recent research, however, finds that Chicago's TIF program has failed the "but for" test. With few exceptions, TIF districts have not produced new jobs, business development, or real estate activity beyond what would have occurred without them (Lester, 2013).

Tax incentives tend to have little to no effect on economic growth or capital investment in a local economy because the subsidies "do not affect firm location at the margin" (Patrick, 2014). Research indicates that business location decisions occur in two stages. First, businesses perform evaluations to determine a list of potential profit-maximizing markets with access to customers, the necessary workers, and low operating costs– of which taxes only make up a small percentage. Business subsidies are only relevant in the second stage to differentiate between markets on the list. The tax incentives are often used as leverage by companies in this second stage to extract more subsidies from the highest-bidding locality, but the lack of incentives "does not fundamentally change whether the area is a profit-maximizing location." Subsidies do not turn a bad market into a good location to do business; they slightly improve an already-good place to do business.

Figure 1: Rank of Site Selection Factors of Corporate Executives, *Area Development*, 2012-2016 Average

Rank	Site Selection Factor	Average	2016	2015	2014	2013	2012
1	Highway accessibility	90.9	94.4	88.0	88.3	93.5	90.1
2	Availability of skilled labor	89.9	89.8	92.9	82.1	95.1	89.4
3	Labor costs	86.7	89.6	80.8	81.6	90.8	90.8
4	Occupancy or construction costs	85.9	86.0	85.4	87.9	87.4	82.8
5	Quality of life / low crime rate	81.7	76.4	87.6	84.4	80.9	79.3
6	Available buildings	80.6	75.5	83.7	82.2	83.3	78.4
7	Corporate tax rate	79.7	82.3	78.8	75.6	82.4	79.3
8	Energy availability and costs	78.5	78.5	75.3	76.8	80.8	81.3
9	***State and local incentives***	***77.2***	***84.0***	***75.8***	***73.2***	***81.9***	***71.1***
10	Tax exemptions	76.7	79.7	74.7	73.2	80.6	75.4
11	Proximity to major markets	75.9	78.1	76.3	77.1	75.6	72.2
12	Available land	74.8	75.3	73.9	85.7	80.3	59.0
13	Right-to-work state	73.8	70.1	67.7	77.9	80.6	72.6
14	Low union profile	72.6	70.8	66.3	71.0	81.4	73.5
15	Expedited or "fast-track" permitting	72.1	71.7	74.2	71.0	76.3	67.2

Source(s): Area Development, *2017*.

In fact, corporations themselves do not rank state and local tax incentives very high on their list of site selection factors (Figure 1). *Area Development* annually surveys around 200 corporate executives about

the most important factors in their location decisions. Over the five most recent surveys, state and local incentives have ranked 9th and tax exemptions ranked 10th. The top two factors have consistently been highway accessibility (1st) and the availability of skilled labor (2nd). Occupancy or construction costs, quality-of-life factors, available buildings, and energy availability and costs are all more important in the location decisions of corporations (*Area Development*, 2017).

While *Area Development* surveys corporations, Good Jobs First recently conducted a survey of small business organizations. The national survey of 41 leaders of small business organizations representing 24,000 companies found that they believed tax subsidies favor big businesses. Fully 92 percent believed that incentives are biased toward big businesses. Furthermore, 79 percent said that states are overspending on business subsidies, hurting state budgets, and 72 percent did not think state incentive policies are effective at promoting economic growth (Fryberger et al., 2015). Many small businesses think subsidies are biased toward large corporations, where they are a relatively minor factor in the site location decisions.

There have also been numerous studies that conclude that business incentives actually *reduce* employment in an area. One analysis found that while incentives may provide a small employment level effect in urban counties that diminishes over time, they have lasting negative effects on rural employment levels (Patrick, 2014). Another study on communities in Oklahoma discovered that cash payments to firms to cover 5 percent of "newly created" payroll had no long-term impact on income, population, home values, or job growth in cities with at least one business obtaining the funding. In fact, the percentage of manufacturing jobs actually declined in communities that received the subsidy (Whitacre et al., 2013). In Ohio, establishments receiving business subsidies experienced an average decrease of 10.5 jobs two years later, after accounting for other factors (Gabe & Kraybill, 2002).

The main reason why business incentives can have a negative impact on the economy is because they come at the expense of other productive public goods. Expenditures on incentives are associated with decreased spending on education, highways, corrections, police protection, fire protection, and sanitation (Wang, 2016). Accordingly, business subsidies often mean either fewer public services and a lower quality of life or higher taxes levied on other businesses and individuals (Betz et al., 2012). The consequence of these unintended side effects is a reduction in economic growth over the long run.

Figure 2: Fiscal "Bang for the Buck" Economic Multipliers Per Federal Dollar, Moody's Analytics

Fiscal "Bang for the Buck" in America*	Moody's Multiplier
Temporary tax cuts	
Refundable lump-sum tax rebate	1.22
Payroll tax holiday	1.24
Job tax credit	***1.30***
Across-the-board tax cut	1.02
Housing tax credit	0.90
Permanent tax cuts	
Extended alternative minimum tax patch	0.51
Cut in corporate tax rate	***0.32***
Spending increases	
Extending unemployment insurance benefits	1.61
Temporary increase in food stamps	1.74
General aid to state governments	1.41
Increased infrastructure spending	1.57

**Selected public policies from Moody's Analytics. Source(s): Zandi, 2010.*

Business incentives are among the least-efficient ways to spur the economy (Figure 2). Research from Moody's Analytics has found that for every dollar in corporate tax cuts, the economy improves by only $0.30. Similarly, every dollar paid by the federal government in job tax credits to incentivize hiring creates $1.30 in value. Conversely, boosting spending on public services has a larger impact on the economy. Increased infrastructure spending generates $1.57 for every dollar invested at the national level, temporary increases in food stamps create $1.74 in economic activity, and general aid to state governments– which is used to fund education, highways, corrections, police protection, and other services– has a "bang for the buck" of $1.41 (Zandi, 2010).

Corporate tax cuts and business subsidies are also inefficient because the benefits accrue primarily to the richest households, who spend smaller shares of their incomes back into the economy than poor and middle-class families. The top 10 percent of households account for 78 percent of all capital-based income, which is the type of income that is affected by business incentives and corporate taxes (Bivens & Blair, 2017).

Business tax incentives ignore the fact that the most effective forms of stimulus are broad-based investments in people and in infrastructure, which increase skill levels, improve connectivity, and raise consumer demand. This has led Greg LeRoy, Executive Director of Good Jobs First, to claim that "economic development incentives waste a lot of money on a microscopic fraction of employees and states should focus on investing in infrastructure and education that benefit everyone, rather than showering big companies with dollars" (Wang, 2016). Similarly, in a University of Chicago survey of 34 economists at the nation's top universities, only 3 percent of economists agree that the economy as a whole "benefits when cities or states compete with each other by giving tax incentives to firms to locate operations in their jurisdictions" compared with 72 percent who disagree (IGM Forum, 2015). It is also worth noting that 83 percent of economists think that the costs of state and local subsidies to build stadiums for professional sports teams exceed their benefits (IGM Forum, 2017).

Two recent studies from the Illinois Economic Policy Institute shed light on two particular corporate subsidy policies in Illinois. Illinois has a "retailer's discount," which is a generous reimbursement to retailers for collecting sales taxes (The Civic Federation, 2017). Retail companies in 28 states are able to keep portion of the sales taxes they collect on behalf of state and local governments through a retailer's discount. In these states, sales tax revenues that would otherwise go to public services or to balance the budget are given to retailers. The biggest beneficiary is the corporate giant, Walmart. While retailers argue that they should be compensated by the government for the costs of collecting sales taxes, this process is now automated for nearly all retailers. Illinois dishes out $142 million per year in subsidies to retailers through its current program. Illinois could reduce its subsidy to the rate used in Wisconsin and Texas to add approximately $102 million per year to the General Fund to increase funding for education and infrastructure investment (Manzo & Manzo, 2016).

Local governments in Illinois could address revenue shortfalls for public services by recouping a portion of surplus tax increment financing (TIF) funds (Manzo et al., 2017). For instance, in 2015, Chicago had $1.4 billion in surplus TIF funds that could have been retrieved, although about $1.3 billion was already committed to development projects (Fortino, 2015). The findings by Lester (2013), however, suggest that most of these development projects would occur without the surplus and that the TIF funds merely "crowd out" other private investment. Local governments could have recouped TIF dollars and re-dedicated them to other public services such as education or public transit to positively improve the economy.

ECONOMIC IMPACT ANALYSES OF BUSINESS SUBSIDIES AND ALTERNATIVE OPTIONS

The most comprehensive database of economic subsidy data is maintained and tracked by Good Jobs First, a national policy resource center. Their Subsidy Tracker 3.0 compiles data from over 900 known state, local, and federal programs and allows the public to understand the number, type, and magnitude of business subsidies afforded to companies (Good Jobs First, 2017).

After adjusting for inflation using the Consumer Price Index, governments in Illinois have spent at least **$4.9 billion** in state and local business subsidies since 2000.[1] These subsidies have been doled out in 4,708 economic development incentive packages. The types of incentives include tax increment financing (TIF), tax credits or rebates, property tax abatements, and other deals (Craighead, 2017a). In the 17 years from 2000 through the end of 2016, state and local governments in Illinois have spent an average of **$288.5 million** annually in business subsidies, in constant 2017 dollars.

An economic impact analysis approach is used to estimate the effect of these business incentives. Economic impact analyses are used by policy experts and economic development professionals to determine effects on everyone who benefits or loses as a result of a policy change or new program, parsing out the impact from what would have otherwise occurred in the absence of the policy. The analysis accounts for the interrelationship between industries and households in a regional market, following a dollar as it cycles through the economy. This report uses IMPLAN, an industry-standard software which uses U.S. Census Bureau data to capture all transactions in Illinois while also accounting for business and household taxes (IMPLAN, 2017).

The IMPLAN software uses multipliers to estimate how much an extra dollar spent on a project or program will add to the local economy. The estimates in IMPLAN are itemized by direct, indirect, and induced impacts. For example, in estimating the impact of infrastructure investment, these impacts would respectively provide the effects on construction workers directly employed as a result of the investment, companies that indirectly benefit by providing materials and support to construction firms, and consumer demand induced by the government expenditures. The models also assume a "local purchase percentage" of 93 percent, which is the share of the spending that is expected to remain in the Illinois economy, with 7 percent "leakage" to other states. This aligns with both the share of construction work performed by in-state contractors in Illinois and the estimated share of Illinois motor fuel tax revenues paid by Illinois motorists (Manzo & Poulos, 2015).

The Average Annual Economic Impact of $4.90 Billion in Total Business Subsidies Since 2000

While providing working-class tax credits or physical and human capital investments directly support labor income and investment by the public sector, economic development incentives directly support capital income and investment by private businesses. Owners of companies and stockholders of corporations generally tend to be wealthier than the rest of the population. Thus, business subsidies primarily benefit the rich. In estimating the economic impact of business subsidy spending in Illinois, it is assumed that 78 percent of the value of the incentives would accrue to the richest 10 percent of Illinois households, with the bottom 90 percent of households receiving just 22 percent of the capital income gains (Bivens & Blair, 2017). This aligns with the nonpartisan Congressional Budget Office's estimate that about 75 percent of the incidence of corporate income taxes falls on capital owners (CBO, 2016).[2]

[1] The total subsidy value was $4,904,782,514 in constant 2017 dollars. The value was adjusted for inflation using the Consumer Price Index (CPI-U) from the Bureau of Labor Statistics at the U.S. Department of Labor (BLS, 2017a). The nominal total prior to the adjustment was $4,127,421,055 in subsidies. Note that previous studies in this ILEPI series have found that state and local governments in Illinois have spent at least $5 billion on business subsidies since 1985. Those studies were in nominal dollars and the subsidy values were not adjusted for inflation.

[2] It is worth noting that the share of Illinois' economy captured by capital income increased by 2.7 percent between 2000 and 2014, from 35.4 percent to 38.1 percent (Manzo & Bruno, 2017).

With these assumptions inserted into the IMPLAN model, it is estimated that the $4.9 billion in business subsidies spent by state and local governments since 2000 have saved or created about 29,300 job-years and contributed nearly $2.6 billion to the Illinois economy (Figure 3). On a per-year basis, the subsidies have saved or created about 1,700 jobs annually and caused annual economic output to increase by an average of $152.3 million in current dollars. This means that the annual cost per new job exceeds $167,000, which is significantly higher than the income and fringe benefits paid to the average full-time Illinois worker. Furthermore, the subsidies have also returned approximately $7.4 million in state tax revenue each year– mainly in the form of sales and income tax collections– and $7.9 million annually in local tax revenue– principally from sales and property tax contributions.

A stimulus of about 1,700 stable jobs is just a drop in the bucket in the Illinois labor market, which has over 6 million workers (BLS, 2017b). With only marginal gains of about 1,700 new annual jobs that would not have otherwise been created without the subsidies, it is easy to understand how many economic studies find that economic development incentives have little to no effect on the economy. Moreover, when compared with other policy alternatives that positively impact economic growth, it becomes clear that business subsidies can be an inefficient way to use taxpayer dollars.

Figure 3: Total and Annual Economic Impacts of Business Subsidies in Constant 2017 Dollars, 2000-2016

Economic Impacts (In Constant 2017 Dollars)	Total (2000-2016)	Annual
Employment (Jobs)*	29,298	1,723
"Value Added" Gross State Product (In Millions)	$2,588.44	$152.26
State Tax Revenue (In Millions)	$125.45	$7.38
Local Tax Revenue (In Millions)	$134.65	$7.92

**The unit of employment for the total (2000-2016) estimate is job-years. Source(s): Good Jobs First, 2017; IMPLAN, 2017.*

Alternative #1: The $4.90 Billion Could Have Been Invested in Public Infrastructure Since 2000

Figure 4 presents annual estimated economic impacts if the $4.9 billion– or $288.5 million per year since 2000– had instead been spent on public infrastructure projects. The infrastructure alternative comparison assumes that 10 percent of the revenue is spent on local government passenger transit, with 45 percent spent on new road and bridge construction and the remaining 45 percent spent on road and bridge maintenance and repair. Under these assumptions, the Illinois economy would have added nearly 3,900 total jobs per year, $288.1 million in economic output, and over $21 million in state and local tax revenues annually.

Investing in safe public infrastructure– direct physical capital development– is a more efficient use of taxpayer dollars than subsidizing large corporations because it benefits the broader public. Since economic development incentives are typically transitory, firms may decide to exit the state once they have expired. High-quality infrastructure, on the other hand, is durable and lasts for generations, attracting business activity by lowering the cost of transporting of goods, services, and people. In addition, corporate executives consistently rank highway accessibility as the most important factor in firm location decisions (Figure 1). Based on a per-year average, the Illinois economy lost over 2,100 jobs and $135.8 million in gross state product by doling out business subsidies instead of investing in infrastructure. The state also relinquished $4.3 million in annual tax revenue and local governments lost about $1.7 million in tax revenues they otherwise would have generated every year.

Figure 4: Real Annual Economic Impacts of Infrastructure Investment vs. Business Subsidies, 2000-2016

Economic Impacts (In Constant 2017 Dollars)	Business Subsidies	Infrastructure Investment	Potential Loss from Subsidies
Employment (Jobs)	1,723	3,856	-2,133
"Value Added" Gross State Product (In Millions)	$152.26	$288.09	-$135.83
State Tax Revenue (In Millions)	$7.38	$11.66	-$4.28
Local Tax Revenue (In Millions)	$7.92	$9.57	-$1.65

Source(s): Good Jobs First, 2017; IMPLAN, 2017.

Alternative #2: The $4.90 Billion Could Have Been Used on Public K-12 Education Since 2000

Similarly, Figure 5 contrasts annual estimated economic impacts if $288.5 million per year (in constant 2017 dollars) would have been spent on public K-12 education instead of business subsidies. The public K-12 education comparison assumes that 90 percent of the revenue would have been spent on instructional services in elementary and secondary schools, with the remaining 10 percent spent on school construction and improvements. At $288.5 million in average expenditures, the Illinois economy would have created or saved over 6,100 jobs and $341.6 million in economic output per year. Additionally, tax revenues would have increased by $15.8 million at the state level and $15.7 million at local units of government.

Investing in children through education– direct "human capital development"– has long-term economic benefits that grow knowledge, increase the skills of future workers, and develop future innovators and entrepreneurs. In addition, corporate executives consistently rank skilled labor as the 2nd-most important factor in firm location decisions (Figure 1). Based on a per-year average, the Illinois economy lost about 4,400 jobs and $189.3 million in gross state product by spending taxpayer dollars on business incentives rather than public schools. Illinois has also lost an estimated $8.4 million in forgone state tax revenue and $7.8 million in forgone local tax revenues every year since 2000.

Figure 5: Real Annual Economic Impacts of Public K-12 Education vs. Business Subsidies, 2000-2016

Economic Impacts (In Constant 2017 Dollars)	Business Subsidies	Public K-12 Education	Potential Loss from Subsidies
Employment (Jobs)	1,723	6,131	-4,408
"Value Added" Gross State Product (In Millions)	$152.26	$341.55	-$189.29
State Tax Revenue (In Millions)	$7.38	$15.82	-$8.44
Local Tax Revenue (In Millions)	$7.92	$15.72	-$7.80

Source(s): Good Jobs First, 2017; IMPLAN, 2017.

Figure 6 provides additional context. Of the more than 6,100 jobs that would have been created had business subsidy money been spent on public K-12 education, about 4,300 would have been direct jobs at schools. These include teachers, social workers, librarians, and aides, as well as some direct construction and maintenance occupations. Given that there are just over 3,700 K-12 public schools in Illinois, this implies that each individual school could have employed 1.2 more workers every year at a middle-class compensation of $66,757 per job (ISBE, 2016a). According to the Illinois State Board of Education, the average full-time equivalent teacher salary was $63,450 in 2016 (ISBE, 2016b). This means that every K-12 public school in Illinois could have saved or created one 17-year teaching position if state and local governments had spent economic development dollars on education rather than on subsidies for corporations.

Figure 6: Public K-12 Education in Context, Direct Jobs Per Public School in Illinois, 2000-2016

The Impact of K-12 Public Education In Context	Annual
Direct Jobs Created or Saved	4,322
Number of K-12 Public Schools in Illinois	3,735
Direct Jobs Per Public School	1.16
Cost Per Direct Job	$66,757

Source(s): ISBE, 2016a; ISBE, 2016b; IMPLAN, 2017.

Alternative #3: The $4.90 Billion Could Have Been Used on Higher Education Since 2000

The alternative policy option depicted in Figure 7 is $288.5 million spent each year at institutions of higher education, assuming a spending breakdown of 90 percent on instruction at colleges and universities and 10 percent on new construction and improvements. Each year, the Illinois economy would have created or saved over 3,400 jobs, $314.4 million in productive economic output, and more than $24 million in state and local tax revenue through this direct public investment in students. Pitting economic development incentives against the higher education alternative reveals that the Illinois economy lost about 1,700 jobs per year and $161.9 million in annual economic activity by not funding higher education. Since 2000, Illinois has also lost an estimated $5.5 million in forgone state tax revenue and $3.7 million in forgone local tax revenues on average every year.

Figure 7: Real Annual Economic Impacts of Higher Education vs. Business Subsidies, 2000-2016

Economic Impacts (In Constant 2017 Dollars)	Business Subsidies	Public Higher Education	Potential Loss from Subsidies
Employment (Jobs)	1,723	3,425	-1,702
"Value Added" Gross State Product (In Millions)	$152.26	$314.14	-$161.88
State Tax Revenue (In Millions)	$7.38	$12.86	-$5.48
Local Tax Revenue (In Millions)	$7.92	$11.64	-$3.72

Source(s): Good Jobs First, 2017; IMPLAN, 2017.

Alternative #4: The $4.90 Billion Could Have Been Used to Provide Working-Class Tax Credits Since 2000

What if the government deals with private businesses had instead been granted to working-class families as a tax credit? For example, the federal Earned Income Tax Credit (EITC) is provided to low-income workers to reduce tax liabilities based on household size. Currently, the State of Illinois matches 10 percent of the federal EITC, which, according to The Civic Federation, costs Illinois $234 million in FY2015 (The Civic Federation, 2017). Thus, the $288.5 million in annual business subsidies could have otherwise been spent on a doubling of the state EITC match from 10 percent to 20 percent. This would have directly supported labor income, rather than capital income. By providing this working-class tax cut, Illinois could have created or saved over 2,500 jobs per year, about 800 more than were created through business subsidies. Similarly, the economy would have been $73.5 million larger and combined state and local tax revenues would have increased by $7.3 million each year (Figure 8).

Figure 8: Real Annual Economic Impacts of Working-Class Tax Credits vs. Business Subsidies, 2000-2016

Economic Impacts (In Constant 2017 Dollars)	Business Subsidies	EITC Increase to 20% Match	Potential Loss from Subsidies
Employment (Jobs)	1,723	2,562	-838
"Value Added" Gross State Product (In Millions)	$152.26	$225.74	-$73.48
State Tax Revenue (In Millions)	$7.38	$10.90	-$3.52
Local Tax Revenue (In Millions)	$7.92	$11.66	-$3.74

Source(s): Good Jobs First, 2017; IMPLAN, 2017; The Civic Federation, 2017.

Alternative #5: The $4.90 Billion Could Have Been Used to Help Balance Budgets Since 2000

While the economic impacts of business tax incentives are positive, they are inefficient because they are less effective than the spending alternatives. On average, business subsidies have created or saved an estimated 1,700 jobs and an estimated $152.3 million in economic activity. However, when comparing alternatives in which governments spend the money elsewhere, investing in physical and human capital and providing a working-class tax cut are better ways to expend taxpayer dollars. Properly funding public K-12 education, in particular, could have added one teacher to every single public school in the state over the past 17 years.

On the other hand, it could reasonably be argued that no action is the appropriate alternative to providing economic development incentives, especially given budgetary realities. Since 2000, under two Democratic Governors and two Republican Governors, there have been very few years in which Illinois had an annual budget surplus. Some elected officials may believe that economic development incentives are revenue-neutral and "pay for themselves" because the businesses receiving the subsidies create jobs in the local economy. If this is the case, they may support economic development incentives but not additional spending on other vital public services, despite all economic evidence.

In a state with large public debt, however, business subsidies can have negative impacts on Illinois' creditworthiness if the alternative is no spending at all. With all else being equal, economic development incentives increase budget deficits. By exacerbating the state's dire financial situation, the business subsidies increase the likelihood of a downgrade from credit rating agencies, which means higher interest rates for the state when it needs to borrow money. This effectively increases costs to taxpayers because it is more costly for state and local governments to borrow money – for example, to build an important new road. A lower credit rating also decreases the confidence of other investors. This is why many investors view generous incentives as a signal of a reckless government that tends to spend beyond its means (Peters & Fisher, 2004). Thus, while business incentives may boost private investment *from the firms receiving the subsidies*, they do so at the expense of public savings from taxpayers and they may limit further private investment from other companies not receiving the subsidies. The overall net effect on the local economy is often negative.

CONCLUSION

Governments in Illinois have spent at least $4.9 billion in inflation-adjusted business subsidies since 2000, or $288.5 million per year on average. While these business subsidies have saved or created about 1,700 jobs per year, the state would have been better off if it had instead spent economic development dollars on an alternative policy.

If state and local governments in Illinois had invested an inflation-adjusted $288.5 million per year on:

- public infrastructure, they would have created or saved nearly 3,900 total jobs per year;
- public K-12 education, they would have created or saved over 6,100 jobs per year, including one teaching position at every single public school in the state over the past 17 years;
- higher education, they would have created or saved over 3,400 jobs; or
- working-class tax credits by doubling the state's match of the federal EITC to 20 percent, they would have created or saved over 2,500 jobs per year.

The state has over $251 billion in unfunded pension liabilities and $15 billion in overdue bills due to decades of mismanagement (Egan, 2017). Investments in these alternative public policies would have created a larger and longer-lasting impact on the state's economy. Similarly, if state and local governments in Illinois had saved $288.5 million per year to help balance public budgets, Illinois could have lessened its current financial woes and potentially avoided as many credit rating downgrades, which have cost taxpayers and reduced investor confidence.

Ultimately, economic development incentives are an inefficient way to spend taxpayer dollars because they are less effective than alternative policies. Illinois taxpayers are already grappling with increased taxes following the prolonged two-year budget impasse, and they have a right to demand the state pursues policies that will most benefit the state. Rather than using valuable taxpayer dollars to subsidize large corporations, Illinois should pursue broad-based investments in people and in infrastructure to grow the economy.

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