The Reality of Tax Incentives
by Andrew Brod
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One of the most vexing issues in economic policy is that of targeted tax incentives for private companies. Local economic developers tout the importance of incentives in attracting and retaining businesses, but taxpayer groups denounce the payment of tax money to specific private businesses.

Caught in the middle are local government officials, who are often uncomfortable about using public funds in this way but fearful of missing economic-development opportunities.

Locally, some of our biggest political battles have involved incentives, including the proposed baseball stadium of two years ago and the current proposal for a FedEx hub at Piedmont Triad International Airport.

The most recent installment of this recurring drama involves Syngenta AG, the company resulting from the merger of parts of Novartis and another Swiss agrichemical company. Novartis Crop Protection's American operations are based in Greensboro, while the other firm is based in Wilmington, Del. Syngenta doesn't need two headquarters, so will it choose Greensboro or Wilmington for its new home?

The North Carolina Department of Commerce has already committed incentives worth $1.2 million to Syngenta, and Forward Guilford, the economic-development arm of the Greensboro Area Chamber of Commerce, has offered another $300,000. This week Guilford County and the City of Greensboro each added $350,000 to the offer, for a total package of $2.2 million.

In return, Syngenta would agree to create over 100 new jobs within three years and invest in additional office construction. Because Syngenta is the kind of knowledge-economy company that is otherwise largely missing from the Triad, the deal is worth thinking about.

But some Greensboro City Council members expressed discomfort with the idea, and the 7-4 vote by the county commissioners suggests significant opposition to incentives. There is something that rubs many of us the wrong way when a company asks for special public funds to help it make a private business decision. Why should we pay them anything?

I tried to answer this question two years ago in these pages ("Tax Incentives Bring on the Prisoners' Dilemma," August 16, 1998). In that column I argued that in a perfect world, states and localities would compete for businesses on the basis of their fundamental amenities and business environments. *everybody* would be better off if *nobody* used targeted incentives.

But the problem is that if nobody used targeted incentives, a given locality could gain ground on others by initiating their use. And if others used them, a given locality would only hurt itself by refusing to follow suit. The upshot is that everyone uses them.

The only way to avoid this trap is for those engaging in the destructive competition to enter into an agreement restricting their actions. Or for an overarching body to enforce such restrictions. However, the former is unlikely to work and the latter implies federal legislation regulating the use of incentives. I don't think anyone expects that to happen.

So the reality is that we're stuck with incentives. I have great sympathy for those who oppose them as a matter of principle, but it's just not realistic.

You may remember hearing the outcry against incentives back when the baseball stadium was proposed. It was wrong, it was immoral, it was corporate welfare. But the outcry missed the point. The tawdry reality of the business of major-league sports is that if you want a new stadium, you'd better pony up the tax money, or else the franchise may just skip town.

But Triad voters didn't pony up the tax money, did we? Saying that we're stuck with "the incentives game" doesn't mean incentives make sense in every case. There are many in Greensboro who feel the FedEx hub isn't worth the sizeable incentive package put together by the state of North Carolina.

(I say "many" because I don't know what the actual proportion of FedEx opponents is. According to an online poll on the News & Record website, about 55% of respondents say that incentives should be used at least sometimes to woo companies like FedEx to the Triad, with the other 45% saying they should never be used. But beware of online polls! They're interesting but not scientifically valid.)

Here's my vote for an incentive package that should have been rejected, or at least repackaged. Early this year, the City and County approved incentives for United Healthcare to locate its new regional headquarters and expanded operations. Okay, but where? In last November's municipal elections, virtually every candidate expressed support for redeveloping Greensboro's downtown. Voters might have expected the City Council to follow through on this.

But the Council approved over $300,000 in incentives for United to locate way up in the Lake Jeanette area! Instead of using the public purse as leverage to promote a sensible policy, the Council helped contribute to suburban sprawl and the lines of commuter traffic on N. Elm St.

What about the Syngenta deal? Wilmington and the state of Delaware are reported to have offered Syngenta a $5 million incentive package to locate there. The fact that Syngenta is asking for only $2.2 million from Greensboro suggests that we have nearly $3 million worth of advantages and amenities that Wilmington doesn't have. It's sort of a $3 million compliment.

Still, it appears it will cost us $2.2 million to stay in the game. My two cents says, reluctantly, that we should approve the incentives. Syngenta is the kind of company and in the kind of industry that Greensboro and Guilford County need to cultivate. It’s true that the likely development would occur far from downtown, but that’s where the Novartis campus is already located.

Ideally, local incentive policies would not be merely reactive, but instead would promote and adhere to existing plans for economic development. Sticking to long-term plans hasn't proven to be one of our fair city's strengths, but there's always hope for the future.