Columbia
Global Issues Testimony
9-28-10

Bruce Hillis Global Issues Testimony

quite good.

So in my opinion these programs, and this one in particular, is really looking at giving these people a hand up instead of a hand out. And I think it's a heartwarming -- heartwarming experience when you can see that working out here in rural Missouri.

I appreciate very much your taking the time. I'd be happy to answer questions if I can.

CHAIRPERSON GROSS: Thank you. Any questions? Thanks for being here.

MR. SPENCER: Thank you.

CHAIRPERSON GROSS. Next is Bruce Hillis.

MR. HILLIS: Mr. Co-chairman Stogel and Gross and members of the committee, my name is Bruce Hillis, that's H-i-l-l-i-s. I live at 635 Mud Dauber Lane, D-a-u-b-e-r, Mexico, Missouri 65265. Again, thank you for this opportunity to testify before your commission.

As I indicated I live in Mexico, Missouri, and I am representing myself as a taxpaying citizen of Missouri. My testimony won't be about specific tax programs, but more about the general use of tax credits as it relates to two general categories, and I'll divide my testimony between those two general categories.

Hillis (Cont.)

And, Senator Gross, perhaps you'll -- I'll help the committee in formulating your charge to the governor as well as answer some of the questions you've raised to yourself in your committee assignment. I hope to do that.

CHAIRPERSON GROSS: Please.

MR. HILLIS: First of all I'd like to talk about the noneconomic development tool of tax credits and some brief remarks about those. First of all, all of those, I would recommend that they be eliminated and converted to the appropriations process. I'm not making any recommendations on reductions or anything else for those people that have -- are making their case here today, but more in light -- for the reasons of transparency and accountability, they should be in the budget appropriations process. When they are revenue deductions, they're really still a cost of doing business.

These tax credits are a cost to do business in Missouri. Now, you may be raising the revenue from other taxpayers, but they're still effectively a cost to taxpayers in Missouri. And to just have them offset revenue is not good for transparency, it's hard to identify them. You can't

Millis (cont.)

go on the internet right now and find exactly how much was spent. You can go to the budgets and -- and -- but you won't find tax credits to determine how much is planned or will be spent. So for transparency they need to be there.

For accountability they obviously need to be in the budget process. If you just reduce them from revenue, it's -- it's like in business, the accounts receivable department, the accounts receivable collection clerk saying, Hey, let's not have any bad debts here, let's just take it off of revenue and blame it on the sales department. That's all you're doing here. You have no accountability to the General Assembly once the overall tax credit is passed and you need some measurement tools to place that accountability and that's why I think they should be in the appropriations process.

Now, as far as all economic development, and there's probably some crossbreeds here, there's some that probably promote what you would think is economic development when they are really maybe in the social program or low income housing or whatever these other programs might be. But when I speak of -- I'll allow you to decide where it appropriately should be placed. But economic

Hillis (cont.)

development programs, all of them should be eliminated unless there is a net positive return on the investment of that tax credit.

Now, I know you've been charged to determine the efficacy and efficiency and the rate of return, but let me share with you my -- some of my comments about how to look at that. You can't just look at the cost of the tax credit and determine a return on it. You have to look also at the cost of administration of that tax credit under the Department of Economic dem-- excuse me, not demolition, Department of Economic Development. They have a project called demolition, I get them confused sometimes; sometimes I think it should be the whole department. But the tax credit -- excuse me, I lost my train of thought for just a second.

CHAIRPERSON GROSS: You were talking about the administration.

MR. HILLIS: The administration cost obviously, but you also have to look at offsetting the benefit by the lost benefit from the tax that you take from the other citizens. The State has no money of its own. The only way it gets money to fund these or to underwrite them or to offset the cost of these economic development tax programs is they have to

Hillis (cont.)

take it from other citizens. Well, when you take it from other citizens, you reduce their ability to use that money for investment. So you don't always have to account for every dime that is spent on tax credits; you need to account for every dime that was lost opportunity.

If I -- I can give a brief example. Any of us when we buy a new pair of shoes, have to forego something when we buy a new pair of shoes. It may be a dinner on the town or it may be something else. So when you take tax money from all the citizens of Missouri, they're foregoing the opportunity to invest that or spend it, et cetera. So it's lost opportunity. You have to deduct that from the cost of -- to determine the return on investment of the tax credit. To not do that is missing the boat, and we're all in the same economic boat here. And just because Kansas wants to shoot a hole in their boat for some tax credit, Missouri shouldn't shoot a hole in our end of the boat.

Let me try to answer three of the questions you've posed in your committee assignments because I think they're very good questions and should be answered by you as you make your report to the governor. Is return on investment measured

Hillis (cont.)

correctly? I hope I've answered that. If not, I'll sure take another stab at it because you have to include all these costs.

Second question is do tax credits serve to advance Missouri's economic well-being. No, they do not. Because, one, you are taking this money from other people to lose that investment and spending it on something else. This redirection of capital via tax programs diminishes economic freedom. Economic freedom is the right of individuals to pursue their interests through voluntary exchanges of private property under a rule of law. When you take some of their money and give it to somebody else, you're diminishing their economic opportunity. They also disrupt the marketplace and they absolutely demolish a level playing field among competitors in the marketplace. No question about it. You're giving a tax advantage to one competitor, the competitor over across the street is at a loss disadvantage, they're at a disadvantage.

So taking investment from everybody, you may show what is seen, as one of my favorite economists wrote in an essay in 1850, Frederick -- Frederic Bastiat, You may see the benefits of some tax credit program for economics, created 300 jobs.

Hillis (cont.)

what you do not see and what must be seen is the economic impact of taking the money from the citizens to spend over here. I would hope that the governor would appoint an economist to help you with that complex program or question, but that happens; it happens all of the time.

CHAIRPERSON GROSS: You have two minutes.

MR. HILLIS: Thank you. So let me just state his, Frederic Bastiat, let me take a quote then for a minute out of What is Seen and What is Unseen [sic]. In it he said, in that essay, in the department of economy an act, a habit, an institution, a law gives birth not only to an effect, but to a series of effects. Of these effects the first only is immediate. It will manifest itself simultaneously with its cause. It is seen. The others unfold in succession. They are not seen. It is well for they are foreseen.

Today we would call those unintended consequences. And you have to measure the unintended consequences to determine the return on investment.

I believe -- now I haven't spoken out against a single tax credit, but I believe when you accurately calculate the return on investment, you

Hillis (cont.)

will produce none on any program. Because not only are you losing the investment over here of the people you're taking the money from, you also have to administer that and spend money to go through that administration to take it from the Department of Revenue to the Department of Economic Development and then turn around and invest it. It's a negative investment always.

What is the reform that should be done? And I know that's an important question for you, reform. And reform may -- the government may say, you shouldn't just cut, you've got to reform. Well, reform is getting rid of an evil and putting something in its place; that's what Mr. Webster says. And this evil is destroying economic freedom.

So if anything, what I'd recommend to you is legalize capitalism, promote economic freedom, and the benefits will come. Because it's known to produce prosperity, jobs, entrepreneurial activity where Missouri is in the ditch, 49th or 50th. Economic freedom does that. I will leave with the committee, if I may leave some written testimony.

CHAIRPERSON GROSS: Please.

MR. HILLIS: Leave with the committee not only my remarks summarized, but a study in 2008 of

Hillis (cont.)

economic freedom in the United States and all states. Missouri is 15th, dropped from 10th. We're going in the wrong direction. And it includes things like tax credits and right to work. And then Sizzle of Economic Development which -- or Economic Freedom which really shows some of the benefits telling of that. I'd like to leave that with the committee, and I stand prepared to answer questions.

CHAIRPERSON GROSS: Any questions for Mr. Hillis?

CHAIRPERSON STOGEL: Mr. Hillis, this is our fourth public -- fifth public hearing, and we appreciate you coming and going on record with your very clear opinions on --

MR. HILLIS: Thank you.

CHAIRPERSON STOGEL: -- on this. None of us here are economists. We do have access to some. We'll help --

MR. HILLIS: I hope you do.

CHAIRPERSON STOGEL: -- try to relay that; your remarks will be shared.

MR. HILLIS: Okay.

CHAIRPERSON STOGEL: The -- I'm going to take particular notice of one of your principles and cite the Frothingham versus Mellon case which was a

Supreme Court case back 70 or 80 years ago; I don't remember the exact date.

MR. HILLIS: I don't -- I'm not familiar with the case, I apologize.

CHAIRPERSON STOGEL: It basically said that no one taxpayer has the right to question where appropriations go, and they don't have standing to challenge it because all the revenue comes in and then the legislature and the governor and the elected representatives determine where it goes. So the notion that, from a constitutional point of view, that you would say as to tax credits versus all the other revenue that is collected and expenditures that are made should be measured not only based on the cost to administer the program, but the lost opportunity for reinvestment --

MR. HILLIS: Sure.

CHAIRPERSON STOGEL: -- that's just not what the Supreme Court decided as a constitutional matter decades and decades ago. So I'm not sure I agree with your economics.

MR. HILLIS: I don't know that the U.S. Cons-- or Supreme Court would change my opinion on that. They may say they have no obligation to do it; I'm telling you in a return on investment, you should

Hillis (cont.)

consider it. That's all my suggestion is.

CHAIRPERSON STOGEL: I'll pass it along, but I wanted to note for the audience that the constitution sort of works differently as to particular taxpayers determining where the legislature gets to spend their dollars.

MR. HILLIS: May I make one remark, one additional comment?

CHAIRPERSON STOGEL: Sure.

MR. HILLIS: Again, I'm not evaluating, trying to decide on whether -- how much an appropriation should be. My issue of using the appropriation process for this as an expense is quite different. If -- if everybody can justify the expense in the appropriation -- I'm just saying it's a better mechanism to do an appropriation than it is to do a revenue offset. They're the same, it's all the cost of doing business. I'm just comparing those two.

From a purely Missouri constitution standpoint, I think there's some important principles why you should use it in the budget process as opposed to in a revenue offset. In a revenue offset on a tax credit has multiple years, it prevents -- it's clearly intended on Missouri constitution that

Hillis (cont.)

succeeding general assemblies approve appropriations. They missed that opportunity under tax credit that carries multiple years.

CHAIRPERSON STOGEL: We've heard the appropriation argument --

MR. HILLIS: Okay.

CHAIRPERSON STOGEL: -- from others, but we appreciate you coming. The last comment I do want to note for the record, the legislature has over the last three or four years passed a series of increased -- under both the Blunt administration and Governor Nixon have enacted legislation to add to transparency, increase accountability, augment reporting on the records that are available.

If you're interested in a compendium of the 61 tax credit programs and you leave me your card, I'll have it sent to you so that you have the full information.

MR. HILLIS: Thank you. I'd appreciate that.

CHAIRPERSON STOGEL: Since it's all in one --

MR. HILLIS: But I'd also appreciate --

CHAIRPERSON STOGEL: It's all in one place.

Hillis (cont.)

MR. HILLIS: -- the opportunity to be able to go in the budget process and discuss these items instead of doing an independent board.

CHAIRPERSON STOGEL: Actually it is part of the budget process, but that's for another conversation. But glad to give you the --

MR. HILLIS: Okay.

CHAIRPERSON STOGEL: -- compendium of reading materials.

MR. HILLIS: Thank you.

CHAIRPERSON GROSS: Any other questions? Thank you for being here.

MR. HILLIS: You're welcome.

CHAIRPERSON GROSS: Next is, I'm not sure if it's Robert or Roland, and then the last name starts, looks like with a J or an L? Best I can do. Something Commons? Okay. Jeff Craver is next.

CHAIRPERSON STOGEL: When anybody has written materials to hand in, just bring it up here. That would be really helpful so it doesn't get lost in the reporter's multiple duties.

MR. CRAVER: And there's an addendum coming through.

CHAIRPERSON GROSS: Go ahead and state your name and spell it for the record.

Hillis (cont.)

Missouri Tax Credit Review Commission

Testimony

September 28, 2010

Co-chairmen Gross and Stogel and Members of the Missouri Tax Credit Review Commission

My name is Bruce Hillis. I live in Mexico, MO and am here to offer my testimony as a Missouri Citizen and Missouri Taxpayer.

My remarks will be divided between tax credits designed as Economic Development tools and a few remarks related to those Tax Credits that are not intended as Economic Development tools. I do not plan to offer testimony on any one specific program. Instead I will direct my comments to hopefully help you find a method to determine answers to some of the difficult questions that were identified in the September 16th Committee Assignments as well as assist you in responding to the Governor's charge to the commission.

FIRST – NON-ECONOMIC DEVELOPMENT TAX CREDITS: All Tax Credits that are not designed as Economic Development tools should be removed from the Department of Economic Development; be eliminated as tax credits; and, then made a part of the budget appropriation process within such department to which they may be reassigned. Why? Tax Credits are a cost of doing business and should be properly identified in the budget process for transparency and accountability. Not to do so would be akin to a business offsetting bad debts against revenue on its income statement presented to its shareholders.

There is also an important principle behind this recommendation. Such tax credits are an "end-run" around the Missouri Constitution. Tax Credit programs allow the General Assembly to pass legislation that impact the state budget outside of the time constraints provided in the Constitution for appropriation bills; and, to skirt the constitutional intention of annual appropriations by successive general assemblies; and, allows the General Assembly to delegate a portion of its annual budget appropriation process, that relates to such credits, to the Executive Branch in conflict with Article II, the Separation of Powers Doctrine, of the Missouri Constitution.

SECOND – ECONOMIC DEVELOPMENT TAX CREDITS: This Commission should recommend to the Governor that all Economic Development Tax Credits that do not have a net-positive Return on Investment should be eliminated and the remainder, if any, be made subject to the appropriation process as was recommended for non-economic development tax credits.

I believe that you have raised the right questions concerning Return on Investment in your September 16th Committee Assignments; however, I would like to offer the following suggestions in response to three of those questions for your consideration in formulating answers for inclusion in your report to the Governor.

Hillis (cont.)

No. 1: Is that return on investment currently measured satisfactorily? (Question 5 of 9/16 Committee Assignments)

I can tell you that Return on Investment is not now measured satisfactorily. To accurately determine Return on Investment, all costs and adjustments to the calculated return must be considered. Not just the cost of the Tax Credit and the cost of Administering the Tax Credits by the Department of Economic Development, which you may be properly considering, but also the return must be adjusted by offsetting the loss of economic benefit that would have been obtained from the capital represented by the taxes collected and redirected to the various tax credit programs.

ALLOW ME TO EXPLAIN: Since the state has no funds of its own it must first take the required funds from the wealth of its citizens to capitalize (fund or make up the short fall in taxes) the state's Economic Development Tax Credits. Most of us understand that when we choose to buy a new pair of shoes some other want, need or use of our money goes lacking. It's no different when government diverts the wealth of its citizens, via taxes, and spends it on government created projects, like economic development tools. The result is that some other investment or expenditure by the individual or corporate citizen goes unmet. In other words the diversion of wealth via taxes is in reality a diversion of capital. Capital that would not be diminished by the administrative cost of the state to collect and redirect the tax proceeds and that would otherwise seek an investment or expenditure alternative selected by the combined judgment of all Missouri citizens and not left to the limited judgment of government and its agencies. So to accurately determine the Return on Investment, the state must not only account for every "Dime" spent but also account for the "lost opportunity" for investment of every "Dime" collected to provide the subject Tax Credit.

No. 2: Does it (tax credits) serve to advance Missouri's economic well being? (Question 7b)

They do not. The redirection of capital via tax credit program diminishes Economic Freedom, "The right of individuals to pursue their interests through the exchange of private property, under the rule of law". Economic development tax credits also disrupt the market place and demolish the level playing field; and, Tax Credits may also seduce recipients to direct capital to uses that are contrary to market demands, creating or extending "bubbles" or excess capacity.

No. 3: Other than the program's fiscal impact, are there any public policy objections related to the use of public dollars to accomplish the desired outcome? (Question 8)

Yes there are. The redistribution of wealth via tax credits is in conflict with the Missouri Constitution Bill of Rights. Article I, Section 2 provides in part: ***"All persons have a natural right....to the enjoyment of the gains of their own industry....and...when government does not confer this security, it fails in its chief design." Collection of additional taxes from one citizen to provide a "Tax Credit" to another citizen, individual or corporate, is a restriction on the right of "enjoyment of the gains of their own industry".***

Hillis (cont.)

I would like to conclude my testimony with a brief quote from an 1850 essay by one of my favorite economists: "That Which is Seen, and That Which is Not Seen", by Frederic Bastiat:

***"In the department of economy, an act, a habit, an institution, a law, gives birth not only to an effect, but to a series of effects. Of these effects, the first only is immediate; it manifests itself simultaneously with its cause*—it is seen. *The others unfold in succession*—they are not seen: *it is well for us if they are* foreseen. *Between a good and a bad economist this constitutes the whole difference—the one takes account of the* visible *effect; the other takes account both of the effects which are* seen *and also of those which it is necessary to* foreseе."**

Today, we would refer to what is unseen as the "unintended consequences". It is these unintended consequences that must be "foreseen" and evaluated for you to determine the efficacy, efficiency and Return on Investment of the various Tax Credit programs, in response to the Governor's charge.

I do not believe that, when all cost and adjustments are considered, that any Economic Tax Credit will produce a net positive Return on Investment. Therefore as an alternative to Economic Development Tax Credits you should recommend to the Governor that he promote policies that improve Economic Freedom, which has been shown, among competing states, to spur entrepreneurial activity, promote positive migration and increase prosperity.

For this purpose and for your additional information I have attached copies of the "U.S. Economic Freedom Index, 2008 Report" published by the Pacific Research Institute, as well as "The Sizzle of Economic Freedom, How Economic Freedom Helps You and Why You Should Demand More" by Lawrence J. McQuillan and Robert P. Murphy.

That concludes my testimony. I stand prepared to attempt to answer any questions you may have.

Bruce Hillis

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Attachments:

Separate PDFs

"U.S. Economic Freedom Index, 2008 Report" published by the Pacific Research Institute

"The Sizzle of Economic Freedom, How Economic Freedom Helps You and Why You Should Demand More" by Lawrence J. McQuillan and Robert P. Murphy

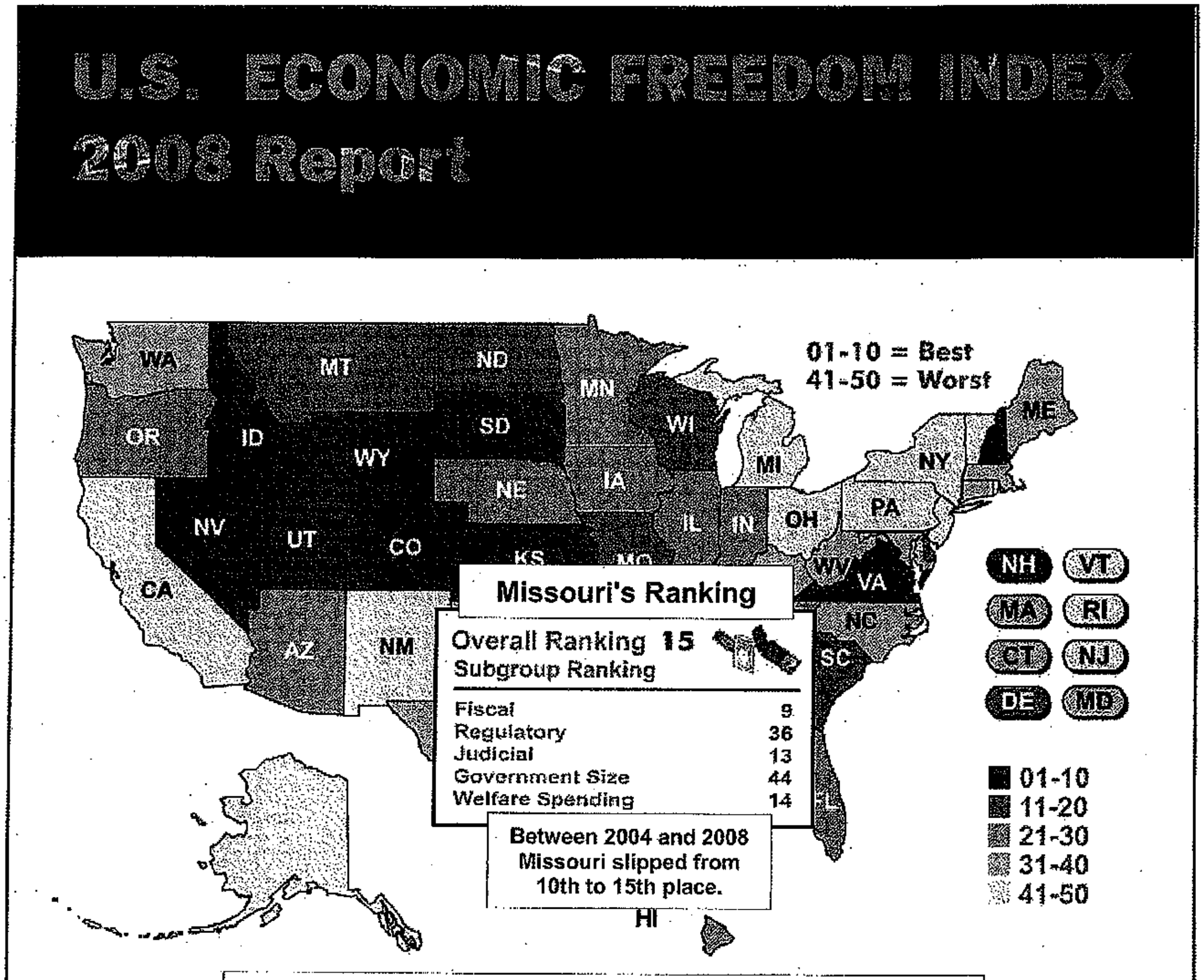
Hillis (cont.)

From Pacific Research Institute's Index of Economic Freedom

http://special.pacificresearch.org/pub/sab/entrep/2008/Economic_Freedom/map.html#mo

For the complete study go to:

http://special.pacificresearch.org/pub/sab/entrep/2008/Economic_Freedom/rankings.html



The Kansas City Kauffman Foundation's study ranks Missouri a dismal 49th in entrepreneurial activity.

Economic Freedom:

"Economic freedom is the right of individuals to pursue their interests through voluntary exchanges of private property under the rule of law."

Hilts (cont.)

Pacific Research Institute
The Sizzle of Economic Freedom

See also:
Index of Economic Freedom
At: www.pacificresearch.org/

Just Google: "pacific research economic freedom"

Executive Summary

For the full report Google: "pacific research sizzle"

Freedom lovers have long tried to win converts—and especially voters—by appealing to first principles of classical liberalism embraced by the Founding Fathers: above all, the inalienable right of an individual to chart the course of his own life. This approach has had limited success, because most Americans do not feel unfree. Instead of selling the freedom steak, perhaps a better approach would be to sell the freedom sizzle: all the secondary benefits that flow from greater economic freedom.

Economic freedom is the right of individuals to pursue their interests through voluntary exchanges of private property under the rule of law. This freedom forms the foundation of market economies. The premise of this report is simple: Most Americans do not realize what the restrictions on their economic freedom are costing them. Americans would likely demand more economic freedom, and be willing to pay a higher price to achieve it, if they knew about the benefits that would flow to them in return.

Because of advances in research, there is now a large body of scholarship that has quantified the benefits of economic freedom to individuals and to civil society generally. This report describes in easy-to-understand language the benefits of more economic freedom and the costs of imposing more restrictions on free enterprise and consumer choice.

The benefits of greater economic liberty include:

- Higher personal income
- Less unemployment
- Faster economic growth
- More macroeconomic stability
- Greater capital investment and productivity
- More business startups
- More entrepreneurship and innovation
- A better-educated workforce
- Less poverty and inequality
- Better health
- Greater population inflows
- A cleaner environment
- Better quality of life
- More democracy and peace

Hillis (cont.)

The benefits of greater economic freedom are sweeping and substantial for individuals and societies. In the future, Americans might still vote for restrictions on economic freedom, but this study will allow them to cast educated votes. They will know what they are losing through having less economic freedom and what they would gain from having more economic freedom. The price of infringements on economic freedom is substantial, though often not easily or immediately seen by citizens, voters, and taxpayers—or by their lawmakers. This does not mean the costs are any less real. Understanding the trade-offs is especially important in a slowing economy, when jobs are scarcer and incomes are falling.

Hillis (cont.)

Table 1: Summary of the Benefits of Greater Economic Freedom

Higher personal income	Higher incomes for workers and entrepreneurs, comparable to the benefits from increases in investment or education.
Less unemployment	Substantially reduces unemployment, especially among women, young people, and the low-skilled. Substantially decreases long-term unemployment.
Faster economic growth	When countries or states increase their economic freedom, they experience faster economic growth.
More macroeconomic stability	Shields a country from external shocks and helps it avoid international crises.
Greater capital investment and productivity	Countries with more economic freedom have both higher levels of private investment and higher productivity of that investment—74 percent higher. Greater economic freedom in the host country increases foreign direct investment inflows. A higher rate of increase in economic freedom increases equity market returns to investors.
More business startups	A more dynamic economy because of greater net business formation and increases in venture capital investment per capita, new product patents per capita, the growth rate of sole proprietorships, and business establishment birth rates.
More entrepreneurship and innovation	Promotes entrepreneurship and innovation, without the need for government subsidies or loans. Venture capitalists step in.
A better-educated workforce with parental school choice and school competition	School choice increases both student aptitude and achievement. Students using vouchers scored six percentile points higher on reading tests and 11 percentile points higher on math tests than did students without vouchers. Vouchers improve student achievement even for students without vouchers because they force schools to compete.
Less poverty and inequality	Reduces poverty and inequality between rich and poor as well as between men and women.
Better health	Longer life expectancy at birth, lower childhood mortality rates, and greater vaccination rates. Economic freedom improves health more than political freedom for the most oppressed countries.

Hiltis (cont.)

Greater population inflows	Greater inflows of people to a country or state, resulting in much-needed new consumers, workers, investors, and entrepreneurs.
A cleaner environment	Economic freedom creates greater wealth, allowing people the luxury of "buying" a cleaner environment.
Better quality of life	Increases self-perceived levels of happiness and life satisfaction. Increases the quality of life, as measured by life expectancy and literacy rates, across countries at a point in time, and also increases improvements over time.
More democracy and peace	More economic freedom is associated with more democracy. In developing countries, people initially use political freedom to expand economic liberties. Countries with less economic freedom are more than three times as likely to have an internal conflict as freer countries, and are likelier to have disputes with other countries, including wars.

Greater economic freedom results in more business startups and new products, a better-educated workforce with less unemployment, greater capital investment with rising productivity, faster economic growth over time, and higher and more stable personal incomes. These effects also tend to lower prices, other things being equal. Greater economic freedom also results in less poverty and inequality, better health, a dynamic and growing population, a cleaner environment, better quality of life, and more democracy and peace around the world.

In the future, Americans might still vote for restrictions on economic freedom, but now they can cast educated votes. This briefing exposes what they are losing because of less economic freedom and what they would gain from more economic freedom. The price of infringements on economic freedom is substantial, though often not easily or immediately seen. This does not mean the costs are any less real. Voters and lawmakers would be wise to mull this over before approving any further restrictions on economic freedom given the high price, detailed here, of losing economic freedom.

In the future, Americans might still vote for restrictions on economic freedom, but now they can cast educated votes.

Hillis (cont)

Pacific Research Institute
Index of Economic Freedom

2008 Rank	State	Score	2004 Rank	1999 Rank
1	South Dakota	14.54	15	5
2	Idaho	14.81	4	1
3	Colorado	14.91	2	14
4	Utah	15.16	5	3
5	Wyoming	15.39	9	4
6	Nevada	15.70	12	20
7	Oklahoma	16.74	6	18
8	New Hampshire	17.07	7	6
9	Virginia	17.99	3	2
10	Kansas	18.06	1	10
11	Georgia	18.22	19	12
12	North Dakota	18.56	18	21
13	Montana	18.56	21	26
14	Arkansas	18.82	23	15
15	Missouri Slipped from 10th in 2004	18.90	10	13
16	Alabama	19.03	25	11
17	South Carolina	19.08	13	16
18	Wisconsin	19.15	38	37
19	Mississippi	19.28	28	9
20	Delaware	19.61	8	7
21	Arizona	19.78	11	25
22	Iowa	19.88	16	24
23	Indiana	19.92	14	22
24	Hawaii	19.92	35	39
25	Nebraska	19.93	20	23

Hillis (cont)

2008 Rank	State	Score	2004 Rank	1999 Rank
26	Minnesota	20.92	44	43
27	Illinois	21.16	46	36
28	Florida	21.16	22	30
29	Tennessee	21.18	26	19
30	Oregon	21.24	29	41
31	Texas	21.32	17	8
32	Louisiana	21.36	40	31
33	Massachusetts	21.72	41	47
34	Maryland	21.73	27	35
35	Maine	21.81	30	42
36	North Carolina	21.87	24	17
37	Washington	21.92	31	40
38	West Virginia	22.55	32	32
39	Connecticut	22.66	48	46
40	Kentucky	22.71	39	29
41	New Mexico	22.82	37	28
42	Vermont	22.87	36	34
43	Michigan	23.08	34	27
44	Ohio	23.34	43	33
45	Alaska	23.38	33	38
46	Pennsylvania	23.88	45	45
47	California	23.89	49	44
48	New Jersey	23.94	42	48
49	Rhode Island	24.18	47	49
50	New York	27.39	50	50

Ron Calzone Global Issues Testimony

be no changes to their specific project or property, but rather the commission is looking at anything that is new or new applications in the future. So I didn't want the tenants to believe that -- or leave believing that you were considering changing their specific project or property.

CHAIRPERSON GROSS: Thank you.

CHAIRPERSON STOGEL: Well said, Sallie.

MR. CALZONE: Hi, my name is Ron Calzone, that's C-a-l-z-o-n-e. Did you want the address?

CHAIRPERSON GROSS: No.

MR. CALZONE: Okay. Someone gave it earlier. I'm with Missouri First which is a think tank that kind of focuses on constitutional issues and matters of free market principles. And I'm disappointed to hear what you just said because I guess I thought the commission was about making recommendations about tax credits in general, about their viability, about the appropriateness of having them at all as well as which tax credits continue or which tax credits to pursue in the future. Is that not right?

CHAIRPERSON GROSS: Well, we can make recommendations on any aspect of the tax credits. We're just not going to go back into projects --

Calzone (cont)

MR. CALZONE: Specific projects.

CHAIRPERSON GROSS: -- that have already been approved and funded and all that and try to change the deal.

MR. CALZONE: Which would probably be unjust.

CHAIRPERSON GROSS: That's what Sallie was talking about.

MR. CALZONE: Okay. So, but I'd like to speak then from this point going forward.

CHAIRPERSON GROSS: Great.

CHAIRPERSON STOGEL: That would welcome.

MR. CALZONE: Okay. And I'm -- and I guess I'm here to be another one of the few naysayers which might surprise Senator Gross, but I think that really what would be best for the people of Missouri, what would be most efficient would be to eliminate tax credits totally. Now, particularly those that deal with economic development issues. And I'm not familiar with all of the multitude of types of tax credits, so there may be some that are more appropriate than others.

But I'd suggest to you that you all have been tasked with an incredibly difficult job, one that I don't think anyone in the history of any

Calzone (cont.)

society has been successful in and that is to manage the economy or at least a portion of the economy. You look at just about any nation that has tried a managed economy, they've failed. Of course the greatest experiment was the Soviet Union. It just doesn't work. It's too big a job for man's finite mind to grasp and to do efficiently and properly.

And so I think that when you try to evaluate tax credits as a prince-- as a whole or tax credits on some micro level, you've got to look at it in two different ways. You've got to look at it both in practice and in principle. And I would suggest that mostly at least what I've seen so far tonight is that you're looking at it only in practice and only half of the practice, and that is is the benefits. Mr. Hillis alluded to some of the unseen, unforeseen consequences that are maybe negative, but I'd say that, you know, you're looking at a quarter of the total equation.

And I would like to address for just a minute the principles I think that speak against the continued use of tax credits, and then I'd like to talk a little bit about some of the practice. The use of tax credits as we are doing in Missouri right now I think violates the core purpose and the core

Calzone (cont'd)

premise of Missouri government.

You know, America and Missouri is founded on the principles of equal treatment under the law. We have general welfare clauses that are really about making sure that no one gets favored treatment, and there's a reason for that. Our founding fathers dealt with a whole system of economics and governance back in the 16- and 1700's that conferred special favored treatment to some segments of society, usually the king's favorites, the ones that lined up asking for handouts. Sometimes the king's relatives. And they bristled at that and so they created a system of governance in a society that treated everybody equally under the law. That meant that they weren't any longer going to take money or goods or services from one person and give it to someone else who was favored by the king.

We are violating that premise time and time again, whether it's private use eminent domain or whether it's tax credits and a whole host of things. And I think that that's one of the principles that we should be concerned about.

What's happened is is we're using the law to plunder the masses in order to provide favored treatment for certain people, and it's just morally

Calzone (cont)

wrong. It's against all the -- all the principles that America and Missouri were founded on. And I would suggest that the decisions to plunder and provide for the favorites, those decisions are vested in just a few men. They're not vested in the masses of people. It's not like there's a vote of all of the people that decide whether or not we're all going to tax ourselves so that someone can get favored treatment. You know, if you contrast that to capitalism which is the alternative to the system of tax credits, true, real, free market capitalism, that's the alternative to these kind of tax credits in this system of mercantilism that we've employed.

Everybody under capitalism has an equal vote. They get to vote with their dollar. And if there's demand -- I've heard the word "demand" thrown out several times here -- if there's a demand, then people will vote for that demand with their expenditure of their dollars. And the market, almost always when you look at the big picture, allocates resources most efficiently, certainly more efficiently than the Soviet Union was able to with a small oligarchy that was making those kind of decisions.

I would suggest that in principle we've

Calzone (cont)

got to be concerned about how we undermine the very core principles of Missouri government. The Missouri constitution very clearly tells us what its chief purpose is, what its primary design is. And -- and the way we use tax credits in Missouri violates the chief principal purpose of Missouri government.

In fact what's happened is that these programs have turned the law into an instrument of plunder. The law is being used to plunder the people that don't have the time to come here tonight and speak for themselves. They don't have the guards of vested interest as would accommodate the investment. So consequently not only is the law being subverted and being used as an instrument of plunder, we're creating a disrespect for the law as a -- as a matter of course. And that has broader un-- unforeseen consequences than we can even imagine. They're immeasurable.

Now, those are the principal concerns I have. If you want to look at this -- the other half of the in-practice equation, I'd like to suggest to you that you're going to see lots of folks come here -- you've got more meetings? Maybe this is the last one. You've already seen and you'll see more people line up here and they'll tell you all of the

Calzone (cont.)

wonderful things that tax credits have done for them. They'll tell you that at least from their very narrow perspective. And I don't expect them to have a broad perspective and I'm not saying they're dishonest. I don't blame them for coming here. But your job I think is to look at the broader point of view. And you've got to consider how many people will take the time to line up here and tell you that they've got to spend X number of additional hours at work away from their family producing income to pay the extra taxes that tax credits and other types of subsidies cause.

So what I'm saying is is that this system of tax credits that provides special favored treatment to some is a burden on others who don't have time to come here and tell you about it. How many moms are going to tell you that they'd like to stay home with their children, but they've got a -- they need a second income for their family. And that affects society. So there's a lot of unseen consequences that we need to be concerned about.

If we want to just talk about not just the social but the economic concerns, consider how the use of tax credits and similar subsidies diminish the principles of economic freedom. They create an economic -- economic environment that's not favorable

Calzone (cont.)

for investment. Economic freedom is the engine of progress.

I'll leave with you some studies. The Heritage Foundation, among others, specific -- specific research foundation also does studies on economic freedom. They compare nations, and they compare states. And what they find out is is where you have high levels of economic freedom where you -- where you respect capitalism and reject the special favored treatment that you see with tax credits, you see -- you see side benefits. Like they identify higher personal income for everybody, less unemployment, faster economic growth, more macro economic stability, greater capital investment and productivity in spite of the fact that you attract mal-investment from people when you subsidize what was otherwise not a viable project. More entrepreneurial innovation, better educated workforce, less poverty. Even the birth weight of children increases where you have higher levels of economic freedom.

There's a -- there's a study that was done very recently comparing the states. And Oklahoma --

CHAIRPERSON GROSS: You have two

Calzone (cont.)

minutes.

MR. CALZONE: Okay. Oklahoma which is of course an adjacent state ranks seventh in economic freedom whereas Missouri ranks 15th. Guess what, their unemployment rate is two points better than ours because they have higher levels of economic freedom. How do we measure that? How do we measure the effects of all of this largess that we're willing to give the people that have the lobbyists or that can hire the people to come and line up and ask for special treatment and special favors?

I would also, in closing, I'd like to commend to you the East West Gateway Council of Government Study. Have you all looked at that?

CHAIRPERSON GROSS: Is that the one from last year?

MR. CALZONE: It was published early 2009. They identified --

CHAIRPERSON GROSS: If you'd provide it, we'll get that to everybody.

MR. CALZONE: Okay. Well, just a -- just a 30-second summation. They identified up to $5 billion of subsidies. Most of it went to economic development projects in the greater St. Louis area. And this is what they said. They said that -- they

Calzone (cont.)

identified that the region added 5,400 jobs to the retail sector between 1990 and 2007. And they can't even necessarily attribute those jobs to the subsidies, but even if you did, if you attributed every single new job to the subsidies, that would be $370,373 per retail job created. It's actually double that if you look at --

CHAIRPERSON GROSS: I thought that was largely a TIF study.

MR. CALZONE: It was TIF's and similar things.

CHAIRPERSON GROSS: Okay.

MR. CALZONE: So the point is is that that's not efficient. And we have people bearing the burden, we have taxpayers paying the burden, we have mal-investment that maybe takes away from what would be a better investment in another part of society or economy.

CHAIRPERSON GROSS: Fair enough. Questions? Craig?

COMMISSIONER VAN MATRE: Does your organization oppose then all income tax?

MR. CALZONE: Oppose all income taxes? I think we would be better off without an income tax, yes.

Calzone (cont.)

COMMISSIONER VAN MATRE: So there's no reason to even ask you about whether you believe that a graduated income tax is a mistake?

MR. CALZONE: I think that graduated income tax is discrimination, and I have a problem with that. I think you could probably make the case -- I think a consumption tax is way off subject, but I think that you could make the case for replacing the income tax with consumption tax. And I personally would be in favor of exempting certain necessities from taxation, add some progressiveness to the system, but.

COMMISSIONER VAN MATRE: Well, those horses kind of left the barn a while ago, so, you know, I mean, I don't think our mission and our brief scope will allow us to completely revamp the taxation system in the United States.

MR. CALZONE: No, but, you know, the thing is is that if we want to create -- if we want Missouri to prosper, then what we'll do is we'll create a corporate culture so to speak of economic freedom in the state of Missouri. We'll create an economically free environment. And business and industry will not only flock to Missouri, but we'll grow our own from Missouri. The surrounding states

Calzone (cont.)

that look so good that are doing better than Missouri, they have higher levels of economic freedom.

COMMISSIONER VAN MATRE: None of those states provide any kind of economic incentives for the jobs to locate them?

MR. CALZONE: They do, some of them do, that's right. And we end up getting in a stupid spitting match where everybody ends up the loser. And I would suggest if they're going to be --

COMMISSIONER VAN MATRE: So if nationally there was a prohibition against economic incentives by any one state, assuming that was constitutional, then your argument would be valid because no one would have an economic advantage. Don't you see that if we're the only ones that don't provide that advantage, we're going to lose out to all these other states?

MR. CALZONE: Don't you see that if we rob Peter so that Paul can have an economic advantage over Kansas --

COMMISSIONER VAN MATRE: I'll stipulate it's a zero sum gain, but I don't want us to be the zero.

MR. CALZONE: No. What I'm saying

(Calzone (cont)

within -- within Missouri it's a zero sum gain. And what I'm saying is --

COMMISSIONER VAN MATRE: Within Missouri how do we -- how do we adjust these tax credits to accomplish a balanced budget or help accomplish a balanced budget? That's the finite task, not the infinite task of restructuring income tax.

MR. CALZONE: Well, I think last -- I think last session we were looking for $500 million to balance the budget at one point and it kind of interest -- it was interesting to me to note that 10 percent of that, $50 million, was tax credits that year to one developer in St. Louis that hasn't turned a spade of dirt. And what's more, what's happened in St. Louis and all over St. Louis --

CHAIRPERSON STOGEL: Can we be specific, because I'm not sure that's right.

MR. CALZONE: Okay. And I may have been mistaken. I understand --

CHAIRPERSON STOGEL: I think you're totally wrong.

MR. CALZONE: He has turned a spade of dirt?

CHAIRPERSON STOGEL: If you're referring to the land assemblage credit, the number's nowhere

Calzone (cont.)

near that on that issue. So let's deal with facts.

MR. CALZONE: Okay. I -- I thought it was a fact that Paul McKee was receiving about $50 million.

CHAIRPERSON STOGEL: It's nowhere close to that number.

MR. CALZONE: I may be mistaken. But the point is still well-taken. One of the other things that --

CHAIRPERSON STOGEL: Facts are better well-taken, but let's go on.

MR. CALZONE: Okay. I was mistaken about the facts then if you're correct at least.

One of my other issues is the eminent domain issue. I'm the proponent of --

CHAIRPERSON STOGEL: Time out, time out. That's beyond the scope. I'm going to stop you.

MR. CALZONE: So this is --

CHAIRPERSON STOGEL: We are not going to get into eminent domain. That is not what this commission is here for.

MR. CALZONE: Okay. I wasn't -- I wasn't intending to. I was wanting to point out that this development project in north St. Louis has resulted in the lack of investment in the area. There's a --

Calzone (cont.)

there's a --

CHAIRPERSON STOGEL: Ron, we're not --

MR. CALZONE: No one else wants to come into the area.

CHAIRPERSON STOGEL: We're not talking about project specific stuff. We want to try to stay on programs and process, not particular projects, so I'm going to ask you to --

MR. CALZONE: Okay. My point was is that's just an example of the overall system. And I do hope that the committee does more than just figure out how to patch a sinking ship.

CHAIRPERSON STOGEL: I'm not defending any specific thing, but there are boundaries for public testimony.

MR. CALZONE: I understand.

CHAIRPERSON STOGEL: We're not going to allow attacks on individuals.

CHAIRPERSON GROSS: Any questions for Mr. Calzone?

Ron, thank you for being here.

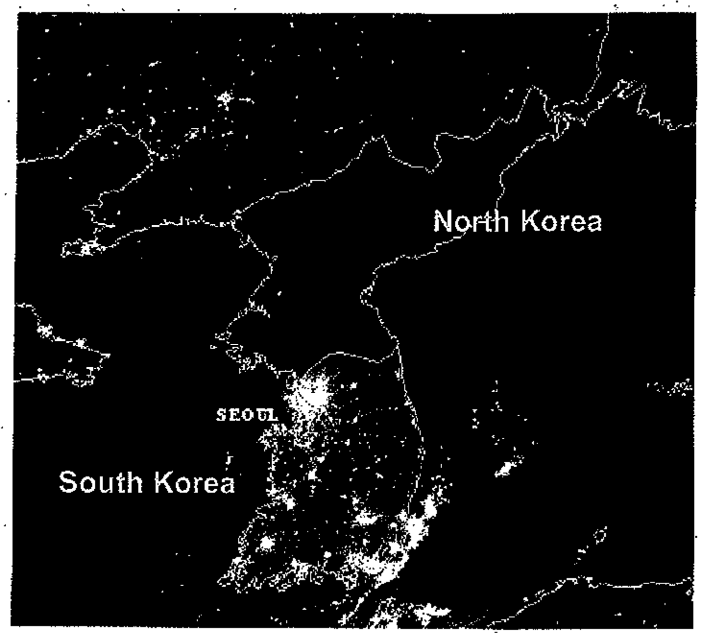
MR. CALZONE: Thank you.

CHAIRPERSON GROSS: Next is Eapen Thampy. I think I said that close to correct.

MR. THAMPY: Hi, I'm Eapen Thampy. I

Calzone (cont.)

ECONOMIC FREEDOM



North Korea ranks dead last in the Heritage Foundation's World Index of Economic Freedom. That's why average North Koreans don't even have lights.

Besides more lights, when you have high levels of economic freedom, you have:

- More Jobs
- Healthier Babies
- More Literacy
- Longer Lives
- Higher per capita Income
- Fewer Poor People
- Richer "poor" People
- Fewer Children in the Work Force

- *Greater Economic Growth!*

More of ALL of Your Freedoms!

Missouri First, Inc. -- www.mofirst.org

Calzone (cont.)

The Heritage Foundation's Indices of Economic Freedom

(Used to compile their annual World Index of Economic Freedom)

Business Freedom....................... Ease of starting and closing businesses and obtaining licenses.

Trade Freedom............................. Average tariff rate and non-tariff barriers such as quotas and delays.

Fiscal Freedom............................. Individual and corporate income taxes, and total tax revenue.

Government Size......................... All government expenditure, including consumption and transfers.

Monetary Freedom....................... Inflation and price controls.

Investment Freedom.................... Restriction or lack thereof on foreign investments.

Financial Freedom....................... Bank regulation.

Property Rights........................... High levels of private ownership; lack of private use eminent domain

Freedom from Corruption......... The Rule of Law

Labor Freedom........................... Rigidity of hiring and firing; wage, hour, and other restrictions.

If we want Missouri to grow in wealth and freedom, we need to promote public policy that respects Economic Freedom.

Calzone (cont'd)

The Three Economic / Political Systems

1) Capitalism

2) Socialism

3) Mercantilism

Mercantilism is a first cousin to socialism and is, arguably, America's greatest threat.

It is the misuse of government power to favor some at the expense of others.

In the 1600s and 1700s, British mercantilism was the rule of the day. The American colonists were greatly oppressed.

- The Navigation Acts
- The Molasses Act
- The Tea Tax
- The British East India Company
- Trade Guilds empowered by government to control markets.
- Land Patents
- Other government guaranteed monopolies.

> "The economic policy dominant in the Europe of the seventeenth and eighteenth centuries, and christened **"mercantilism"** by later writers, at bottom assumed that detailed intervention in economic affairs was a proper function of government. Government was to control, regulate, subsidize, and penalize commerce and production.
>
> What the content of these regulations should be depended on what groups managed to control the state apparatus. Such control is particularly rewarding when much is at stake, and a great deal is at stake when government is "strong" and interventionist. In contrast, **when government powers are minimal, the question of who runs the state becomes relatively trivial.**
>
> But when government is strong and the power struggle keen, groups in control of the state can and do constantly shift, coalesce, or fall out over the spoils. While the ouster of one tyrannical ruling group might mean the virtual end of tyranny, it often means simply its replacement by another ruling group employing other forms of despotism.
>
> In the seventeenth century the regulating groups were, broadly, feudal landlords and privileged merchants, with a royal bureaucracy pursuing as a superfeudal overlord the interest of the Crown. "
>
> *From "Conceived In Liberty"* -- Volume I A New Land, A New People: The American Colonies In The Seventeenth Century by Murray N. Rothbard

The War for American independence was <u>Mercantilism verse Free Market Capitalism</u>!

Mercantilism is alive and well in Missouri, today.

TIFs and Private Use Eminent Domain are prime examples!

The East-West Gateway Council of Governments new study reveals billions of dollars of mercantilistic subsidies in the St. Louis area.

Calzone (cont.)

print | close

STLtoday.com

Billions of dollars blown in regional development subsidies

Sunday, Jan. 25 2009

Since 1990, the St. Louis region's crazy quilt of taxing authorities has dedicated more than $2 billion in public money to subsidize private "economic development" projects. And there's almost nothing to show for it.

At best, the subsidies have created a handful of jobs, few of them long-term or high-paying. The subsidies have created no increase in retail sales nor have they sparked any other economic activity.

The primary beneficiaries of the public investment have been national retail chains, real estate developers, lobbyists and public finance lawyers.

These are some of the findings of the first comprehensive study on the impact of local development incentives in the St. Louis region, completed last week by the East-West Gateway Council of Governments.

The findings will be presented to the agency's board this week. The report covers more than $2 billion in public incentives consisting mainly of tax increment financing deals and special taxing districts. It does not include the value of state tax incentives and many kinds of local tax abatements. These will be covered in later reports, the agency says. State and local subsidies for the new Busch stadium also are not part of this report.

In the programs that were studied, public information about revenues and expenditures was found to be "remarkably weak." Few records are kept to reflect how much an incentive costs. No one keeps track of what benefit the public has received in return — including whether the developer has lived up to his promises. In many cases, there is no reporting requirement — either by law or as a condition of the subsidy.

"If this was a county or city budget with so little transparency, people would be going to jail," Les Sterman, executive director of East-West Gateway, told Post-Dispatch editors and reporters last week.

In the absence of specific data, researchers focused on broad measures of regional economic performance. About 80 percent of the subsidies went to retail

Calzone (cont.)

developments — shopping centers, big-box stores, fast-food restaurants — but did nothing to stimulate retail sales in the region, which have been flat or worse over the 18-year study period.

Developers sometimes boast about how projects will create jobs. The data say otherwise. The region added just 5,400 jobs to the retail sector between 1990 and 2007.

"This translates to the staggering sum of $370,370 per retail job created. Considering that retail jobs pay, on average, an annual wage of $18,000, this is not a good investment by any measure," the report concludes.

Meanwhile, said St. Charles County Executive Steve Ehlmann, programs that offer better prospects for job creation have been underfunded. Among them: biosciences.

Donn Rubin, executive director of the Coalition for Plant and Life Sciences, says he gets "decimal point envy" when he learns about the support that life sciences ventures receive from public agencies in states such as Ohio and Pennsylvania.

The report suggests that subsidized "economic development" programs are less about creating jobs than propping up local governments. Municipal governments depend on sales taxes to fund local services, which means they compete with one another to lure high-volume retailers to their jurisdictions — or prevent a neighboring community from stealing one way.

Overall, the pie doesn't grow. Ultimately, Mr. Ehlmann said, the money leaves the area. Benefits go to national chains at the expense of schools, public transit, sewer districts and local businesses that never have asked for a handout.

East-West Gateway's staff recommends that developers be required to disclose the costs and performance of publicly subsidized projects. That is a worthy first step, but it would require a change in state law. Previous efforts to reform the state's tax-increment financing laws have met with mixed success.

Local leaders should urge the Legislature to try again. If accountability and the wise use of tax dollars aren't bipartisan issues, nothing is.

If you enjoy reading about interesting news, you might like the 3 O'Clock Stir from

Calzone (cont.)

An Assessment of the Effectiveness and Fiscal Impacts of the Use of Local Development Incentives in the St. Louis Region

Interim Report

Executive Summary

Local governments in the St. Louis region have made extensive use of public financial incentives to compete for tax-generating businesses. In some areas, most new development is, in effect, publicly subsidized through foregone taxes in the form of abatements, tax increment financing, and related mechanisms. In addition, the creation of new taxing districts such as transportation development districts, special business districts and others has imposed new taxes to pay for private development. While the short-term effects of these incentives are usually positive for the local government or private sponsor, the overall impact on regional growth and the financial viability of local governments is less clear.

In response to concerns about the long-term effects on the economic health of the region and the fiscal well being of local governments, the East-West Gateway Board of Directors (made up of the region's local elected officials) took the following action:

> *...authorize the staff to undertake a study of the effectiveness of local development incentives to help determine potential actions by the Board. The study should include an inventory of the amount of previous incentives granted by local government and the resulting economic activity from the projects financed through incentives. The study should also determine the effect of local development incentives on the ability of local governments to finance essential public services and the degree to which the extensive use of incentives contributes to economic and racial disparities in the region.*

A full inventory and assessment of local development incentives is a massive effort, made much more difficult by lack of essential data, unreliability of self-reported information, and the general lack of transparency and accountability in the use of these incentives. Differing record-keeping and reporting practices in Missouri and Illinois also complicates the work. Nevertheless, sufficient data exist to support reasonably reliable conclusions about the essential elements of the Board's request.

This report documents a work in progress. The overall study consists of several elements:

- A complete inventory of the use of development incentives
- An accounting of local and regional economic effects of incentives
- An assessment of the state of local government finances and the effects of incentives
- Interviews with experts and stakeholders to solicit policy recommendations
- Conclusions and legislative recommendations

This report documents the use of more than $2 billion of public incentives for private development region wide during the last 15 years. This sum primarily reflects only two types of incentives: tax increment financing and special taxing districts (transportation development districts in Missouri and

Calzone (cont)

business development districts in Illinois). Data to quantify other forms of local tax abatements is not complete or reliable enough to include in this interim report, but those abatements could easily double the total of public incentives described above. Similarly, this report does not include the value of state tax incentives, which are also substantial. As the research continues, the value of these additional local and state incentives will be quantified.

The report also contains a preliminary analysis of the economic impact of development incentives. Direct measurement of those impacts is limited by poor data, so the report describes some broad measures of regional economic growth related to incentives and the state of local government finances.

Based on the work done to-date, we have reached five basic conclusions:

1. There has been massive public investment in private development in the last 15 years across the St. Louis region; about 80% of that investment includes retail development. Conservatively, there has been over $2.5 billion in public money committed in two programs alone: tax increment financing and various, but quite similar, forms of development districts. When other local tax abatements are included the total may double.

2. Across all incentive programs, the provisions for uniform reporting of revenues, expenditures, and outcomes (jobs, personal income, increases in assessed value, etc.) are remarkably weak, particularly considering the involvement of public funds. Even where some reporting requirements exist, there is no meaningful penalty for failure to report, and the state agencies that have the responsibility for maintaining reports have inadequate resources to discharge those responsibilities. Further, there is no mechanism to require a private project sponsor to deliver economic outcomes, or to allow the taxpayers to recoup the value of local tax incentives if those outcomes don't happen (sometimes known as "clawback" requirements). Those accountability provisions apply to certain state subsidies like the Missouri Quality Jobs Act, but are absent for local incentives.

3. There should be a complete database of public expenditures and outcomes for all publicly supported development projects. Because of the lack of widely available information, elected officials and the public cannot possibly make reasoned decisions about the expenditure of tax dollars to produce economic growth. Without that information, it is not possible to know whether local governments are getting value for those expenditures, and because there is no accountability for outcomes, the public can not recover those expenditures in the event that outcomes are not achieved.

4. Broad measures of regional economic outcomes strongly suggest that massive tax expenditures to promote development have not resulted in real growth. While there are certainly short-term localized benefits in the use of incentives, regional effects are more elusive. Development incentives have primarily acted to redistribute spending and taxes. While distribution effects might yield broader economic benefits when used to redevelop economically distressed communities, when incentives are used in healthy and prosperous communities the regional effect may be to destabilize the fiscal health of neighboring areas. This conclusion particularly applies to retail development. While there is ample justification for tax expenditures on retail development in underserved areas, overall there seems little economic basis to support public

Calzone (cont.)

expenditures for private retail development. Despite massive public investment, the number of retail jobs has increased only slightly and, in real dollars, retail sales or per capita spending have not increased in years.

5. <u>Focusing development incentives on expanding retail sales is a losing economic development strategy for the region.</u> The future of sales taxes as a principal source of revenue for local governments should come into question for several reasons: its inherent volatility; the likelihood of a long-term restructuring of retail trade; increasing level of sales taxes discourages spending and local sales in favor of non-taxed internet sales; and, the motivation this tax source provides to focus scarce tax dollars on incentivizing a type of development that appears to yield very limited regional economic benefit. As local governments come under increasing fiscal stress, the impacts of billions of dollars in foregone revenue will become increasingly apparent.