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NOTE: A webinar on this database and report will be held on March 1 at 2:00 p.m. EST. Register here.

Business incentives cost states millions, don't do enough to foster job and wage growth

New database shows how states compare

KALAMAZOO, Mich.—Between 1990 and 2015, state and local governments more than tripled the incentives—mostly tax credits—they offered businesses in hopes of spurring economic growth. By 2015, those incentives totaled $45 billion. But a new, comprehensive database on incentives suggests these policies are not as effective as they could be.

The new database and accompanying report, compiled by Upjohn Institute senior economist Timothy Bartik, provides the most comprehensive look to date at state and local incentives to attract new business locations or expansions.

Access the database | Access the report

Nationally, the database shows:

- Incentives are large and growing. From 1990 to 2015, state and local incentives to export-based businesses grew from 9 percent of state and local business taxes to 30 percent.
- Incentives are a significant investment. In 2015, the average incentive package had an annual value of over $2,400 per job.
- Incentives are not sufficiently targeted towards the industries that could provide the strongest returns, such as those that pay high wages and that spend more on research and development. Industries that paid 10 percent higher wages received only a 3 percent greater amount of incentives than other industries.
- Incentives vary widely across states. In many cases, neighboring states offer significantly different incentives even though their economic conditions and gross business taxes are similar. The use of economic incentives is not correlated with a state's unemployment rate.
- Industry-specific incentives don't always yield industry growth. Larger incentives in a state for a particular industry do not appear to have any strong effect on that industry's growth rate in the state.

"These findings suggest that incentives should be better evaluated to rein in costs and improve targeting," says Bartik. "For example, greater targeting on high-wage businesses will not only offer higher wages to state residents, but the greater purchasing power of workers will result in a greater multiplier boost to state employment."

The database covers 33 states and 45 industries during the period of 1990–2015, and tracks job creation tax credits, property tax abatements, investment tax credits, research and development tax credits, and customized job training. The states included comprise over 90 percent of U.S. output, and the 45 industries are responsible for over 90 percent of U.S. employment. The scope of this database allows users to not only explore incentives across states, industries, and time, but also allows policymakers to investigate the efficiency and efficacy of the incentives they offer.

"For too long, researchers and policymakers have lacked reliable information on how much incentives cost and how their usage varies from place to place. This important database helps fill that information gap," says Josh Goodman, an expert on tax incentives at The Pew Charitable Trusts, which helped fund this work. "This research identifies potential ways to improve the effectiveness of incentives, and also highlights the need for states to regularly analyze the results of these programs."

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