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Mayoral views on economic incentives: valuable tools or a bad use of resources?

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Mayoral Views on Economic Incentives: Valuable Tools or a Bad Use of Resources?

**A POLICY BRIEF FROM THE
2018 MENINO SURVEY OF MAYORS**

Debate rages whether cities should use tax concessions and subsidies to attract or retain business investment. Amazon's public process for determining the site for its second headquarters (HQ2) unleashed a flurry of bids in which, among other things, cities and regions offered up packages of subsidies and tax benefits. Cities seem eager to offer enticements in hopes of securing HQ2 and potentially thousands of well-paying jobs.

It is safe to say questions about using financial incentives as an economic development strategy generate strong views among those who work in and around cities. As part of the 2018 Menino Survey of Mayors, we explored how city leaders feel about recruiting investment with financial inducements and competing with other cities that are doing the same. In the main report, we focused on how mayors as a group responded to questions about incentives in their own cities and in others'. We found mixed views in the aggregate. Mayors tended to think that incentives were an effective tool the way they used them while also noting the risks when others did.

In this brief, we delve deeper by investigating the variation underlying these overall results. Specifically, we ask how much do individual mayors vary on these issues? Do they all hold mixed, and arguably inconsistent views, or do individual mayors fall into coherent but polarized camps that cancel each other out to some extent? We also ask whether mayors' views on corporate tax incentives vary systematically with either their own or their cities' traits, or whether mayors essentially hold idiosyncratic, and therefore unpredictable, views on these key issues of local governance. As it turns out, mayors do vary considerably on these issues, but there is little systematic about this variation.

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COMPETING FOR INVESTMENT AND JOBS

Fifty years ago, the scholar Charles Lindblom regarded the competition for investment as a “prison” that limited policymaking freedom. In order to maintain prosperity, leaders need to attract investment, and attracting investment means giving business what it wants. Paul Peterson applied this idea to cities to argue that they are obliged to follow policies that attract business and affluent people rather than policies that serve their citizens most in need. More recently, Nathan Jensen and Edmund Malesky have focused on the politics of using incentives to attract economic development. They argue that despite evidence against their efficacy, mayors use them to pander to voters and claim credit for taking action.¹

Other analysts however, have taken a more optimistic view of competition among cities. They argue, among other things, that the balance of power has shifted in favor of cities. In today’s knowledge economy, businesses need to locate where talent is located, and bright young people want to live in cities. Some cities may be able to tax and regulate business via generous minimum wage or parental leave ordinances that exceed state and federal standards, because corporations have reasons to locate there other than the best financial package. Relatedly, cities may be able to compete on grounds other than business incentives such as quality of life in a city or the skills of its workforce. Chicago emphasized its cultural riches in its campaign to attract Boeing, not that it was a low tax, low regulation location.

MAYORS’ VIEWS

The 2018 Menino Survey showed² that as a group, mayors have mixed views on the use of incentives. When asked about their own cities, the vast majority of them (84%), said that using financial incentives to recruit investment is “good for the city.” Moreover, 55% of mayors said that the winners of recruitment competitions benefit in the long run. On the other hand, 61% said that *other cities* “give too many incentives.” Moreover, 62% think it would be good (if implausible) for cities to agree to stop playing this game. Thus, collectively, mayors a) think they can effectively use incentives while b) thinking others are less able to do so and c) wishing that the system would go away, even though they know that it will not.

In this brief we investigate the variation within these aggregate responses and what, if anything, explains or predicts mayors reported views on these issues. To do so we created an index to capture skepticism about incentives using the four questions summarized above. Each response that indicated skepticism about incentives was coded one, others coded zero, and then we summed such that a score of four indicates giving the skeptical answer on all four questions.³ The distribution of mayors on this scale is depicted in Figure 1. It shows considerable variation in how individual mayors think about these issues. Nearly 20% never took the skeptical position. At the other end of the spectrum, about 7% expressed skepticism about incentives at every opportunity including in response to a question about their own use. The vast majority of mayors took the skeptical position on at least one, but not more than two, of the four questions.

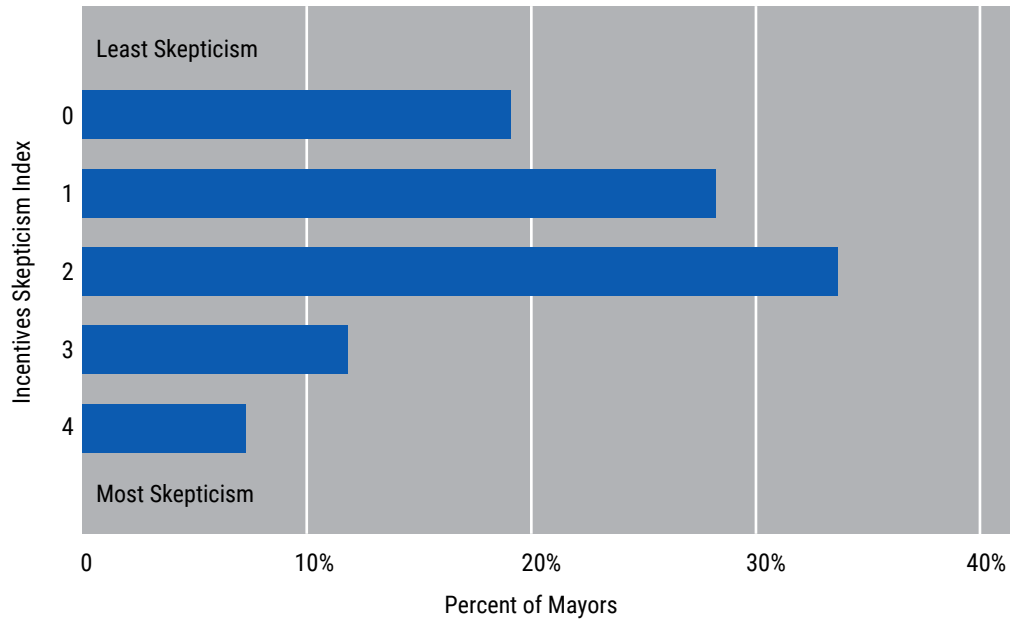
1 <https://www.citylab.com/equity/2018/05/why-do-politicians-waste-so-much-money-on-corporate-incentives/561149/>

2 https://www.surveyofmayors.com/survey/2018/economic_development/. See also Richard Florida’s write up in City Lab at <https://www.citylab.com/life/2019/02/business-tax-breaks-mayors-amazon-hq2/582166/>.

3 The four components of the skepticism index concern whether saying incentives are a) bad for one’s own city, b) others use them too much, c) the winner of competitions does not benefit in the long run, and d) that it would be good if cities could agree to stop using incentives.



Figure 1: Distribution of skepticism index



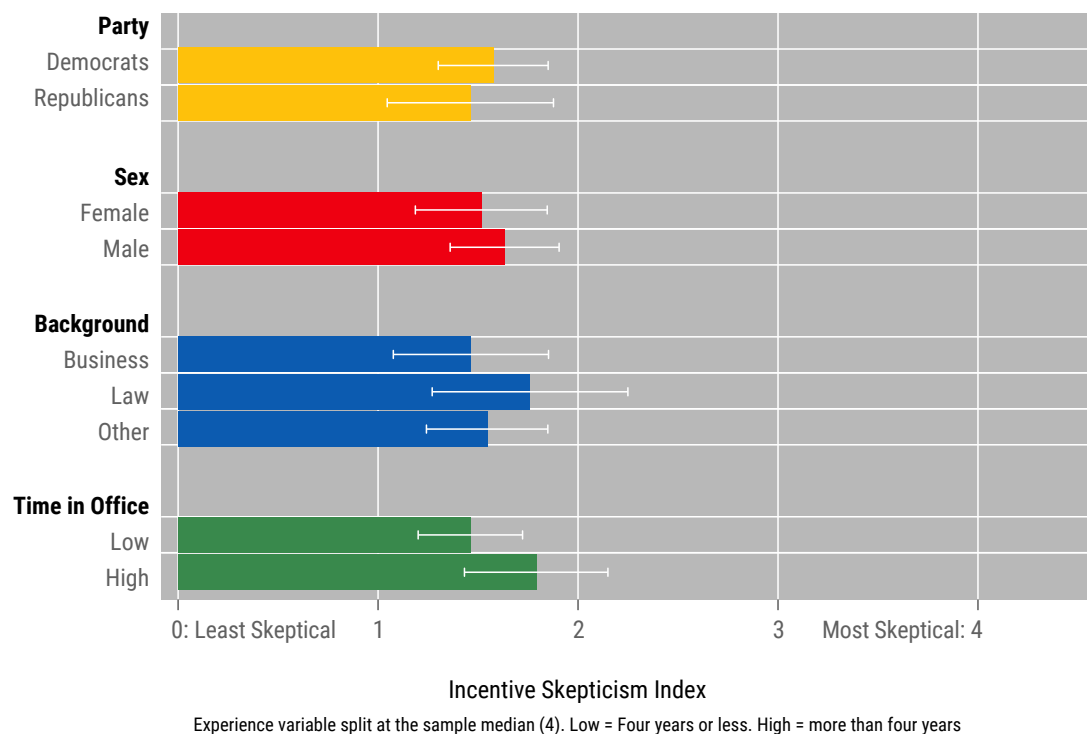
Mayors' comments in response to these questions evince this range of views. Some proudly backed the use of financial incentives. For instance, one mayor colorfully proclaimed "when you go fishing, you have to put bait on the hook." Another said, "our residents are really excited and pushing us to attract development...all the good stuff that folks want is happening." Relatedly, others expressed confidence in at least their own ability to use incentives judiciously and avoid some of the potential pitfalls. One said "we now always have clawbacks and a local hire focus, so we have gotten smarter about making this a good deal for the city." Another, even more directly, asserted "I just rewrote policy to make sure incentives are good for the city." Yet others described incentives as something closer to a necessary evil given the reality of others' use. For instance, one said "counties and states would still do it, so precluding mayors from this would just limit cities' power" and another believed that "no one is thrilled about tax breaks, but we do almost anything to get jobs for the city." Finally, some mayors' comments were more consistent with the very skeptical end of the spectrum. One, who did indeed choose the anti-incentives option for each question explained that it is "very hard to recover from giving incentives to big companies."

What, if anything, distinguishes the mayors who are least negative about the incentives game from those who are the most skeptical? We looked at three categories of other variables: 1) traits of the mayor (e.g. party and time in office), 2) city characteristics including economic performance, and 3) responses on other pertinent Menino Survey questions (e.g. minimum wage).



Mayors' traits (Figure 2) appear to have little relationship to their views on economic incentives. Unlike many issues in American politics, *Democrats' and Republicans'* averages were virtually identical. There is no partisan divide when it comes to recruiting investment with incentives. Female and male mayors also evinced virtually identical views on these questions. One might expect that mayors from a *business background* would view these issues differently than those from other backgrounds. However, we find little to support this possibility.⁴ Similarly, *more and less seasoned mayors* hold similar views.⁵

Figure 2: Mayoral attributes and skepticism about incentives



There are good reasons to suspect that even if mayors' personal traits do not allow one to predict their views on economic incentives, city-level traits do. One possibility is that cities that have relatively more economic power — because they are doing well or are in otherwise advantageous positions — may feel less pressure to turn to incentives to attract investment. An alternative possibility is that wealthier cities with more tax base can better afford to play the incentives game. We investigate both possibilities using a variety of attributes.⁶

Overall, we find some suggestive evidence that cities in stronger economic positions are less enthusiastic about incentives, but by small amounts. Across a range of variables such as income, housing prices, and unemployment rates, mayors leading stronger economies were always more skeptical incentives, but these relationships were

4 Business background mayors were, on average, about one third of a point (out of four) more enthusiastic about incentives, but these differences are not statistically significant.

5 We split the sample at the median time in office (four years). Those who have been in office longer averaged about a third of a point more skepticism than those who have been in office four years or less. Again, these modest potential differences do not meet conventional significance levels ($p \text{ diff} = .13$).

6 Because nearly all of these variables are continuous, we estimated bivariate OLS models to assess the relationship between each and our index of views on incentives.



hardly ever statistically significant. The same is true for five year trends in these measures. Lastly, cities that are the “core city” in a metropolitan or micropolitan region were a little bit less enthusiastic about incentives, but again, not significantly so. Thus, on the one hand, many individual pieces of evidence suggestively point in the same direction; on the other hand, most of these pieces of evidence are not statistically significant on their own. Perhaps most importantly, the magnitudes are quite modest. There are not major differences in support for incentives associated with even substantial differences in the local economy.

Finally, we checked how mayors’ answers to two other pertinent survey questions corresponded to their views on incentives. One question posed a tradeoff between a city-level living wage ordinance and some companies potentially locating elsewhere in response to the ordinance. Those who supported the idea of city-level living wage were no more or less skeptical about economic incentives than those who did not support the potential living wage tradeoff.

The same is true regarding a question we asked concerning the two things mayors most talked about when recruiting corporate investment to their cities. We presented them with a list of items including their workforce, quality of life, economic incentives, and transportation. We asked them to pick two. Three of the items on the list speak directly to aspects of the business climate that the city government has influence over — taxes and incentives, the zoning/review process, and the regulatory environment. It would certainly be reasonable to think that mayors who select these items, and may think these are priorities for businesses, would have more positive views about using incentives. As it turns out, whether mayors selected at least one of these three items has no relationship at all to their responses on the set of questions about using incentives.

CONCLUSIONS

Some readers may be surprised or even frustrated that our research has shown that a) there is no consensus among mayors about how skeptical to be of using incentives and b) that where a mayor stands on these issues is less predictable based on other traits than it may be on other issues. The state of a city’s economy has little relationship to its mayor’s views on the use of economic incentives to attract investment. There is always the possibility that there is “something else” that does explain the variation that undoubtedly exists in mayors’ attitudes that future research might reveal. We would argue, however, that for now our findings do have significant implications. As we noted at the beginning of this report, an influential body of scholarship has argued that structural factors compel cities in the United States to behave similarly; they must prioritize policies that favor business in order to attract investment. We expected that this supposedly common stimulus would result not necessarily in uniform reactions by mayors but at least in clear patterns related to either the mayors’ individual characteristics or their cities.’ We have found no such clear patterns. The absence of clear patterns suggests to us that the supposedly omnipresent pressure to provide inducements to business investment is not the recurring, vivid presence in the lives of mayors that we might expect.

Moreover, our findings suggest true individual level variation on these issues. Therefore, views on economic incentives may be one place where, for example, two ostensibly similar candidates for mayor may vary considerably. Two ideologically similar candidates running against each other in a mayoral primary, or two likeminded mayors of neighboring cities, may hold disparate views about using incentives to entice investment. Given the tools that mayors have at their disposal, these differences may manifest in substantially different outcomes.



RECOMMENDATIONS

This brief only captures mayors' thoughts expressed in response to survey questions. It does not speak to the actual outcomes associated with these views or to the efficacy of incentives. Nevertheless, in the process of doing this work we have discussed these issues more broadly internally and with mayors, and have included some recommendations to help move beyond the "yes or no" incentives discussion.

First, and most obviously, incentives should be used to further city objectives and aspirations, not to advance the interests of corporations. This is easier said than done. It requires having a plan or clear set of goals for where the city wants to go, the capacity to analyze whether or not specific investments work to advance those plans and goals, and the capacity to stick to them.

Second, economic incentives are not the only way to succeed. Mayors tell us that they emphasize factors such as quality of life and the skills of the workforce in attracting business. City resources might be better spent on improving these than on tax concessions.

Third, as the old saying goes, it might not matter who won or lost, but how you played the game. One of the critical factors in competition between cities for investment is the sense of place they convey. It may be that economic incentives "get you to the playoffs," but the final decision comes from having the "right" sense of place that attracts a business. Competing for investment prompts cities to define and articulate a sense of place. That sense of place might be useful in a future competition. It might also more immediately give citizens a sense of pride and belonging.

To learn more about mayoral priorities related to housing, climate change, and other key issues visit www.surveyofmayors.com

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Boston University Initiative on Cities

The Initiative on Cities at Boston University seeks to research, promote, and advance the adaptive urban leadership strategies and policies necessary to support cities as dynamic centers of inclusive economic growth and sustainable development in the 21st century. Founded by a proven urban leader, the late Boston Mayor Thomas M. Menino, and a highly regarded academic, Professor Graham Wilson, the Initiative serves as a bridge between world-class academic research and the real-life practice of city governance.

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