The District's Dime
Going Beyond the Budget Book

The DC Fiscal Policy Institute blog
www.dcfpi.org

January 6, 2015

Ensuring that Economic Development Programs Are Good Deals for the City

By Wes Rivers

Expensive tax cuts for wealthy tech investors will cost the District millions of dollars but do very little for the city's tech industry and overall economic development. The cuts are just one of many economic development initiatives that create big risks with little reward to the city. Mayor Bowser and the DC Council can change this trend by making sure existing development projects are paying off and by promoting proven ways to support tech companies with fewer risks to District residents.

DCFPI's economic development transition brief acknowledges the positive steps the District is taking to review the effectiveness of economic development subsidy programs and highlights one initiative – tax subsidies for the high-technology sector – where further improvement is needed.

The District has made progress in oversight of economic development tax subsidies. This year, for example, the District's Chief Financial Officer will start analyzing the effectiveness and economic impact of business tax breaks and other tax subsidy programs, following legislation requiring such reviews adopted in 2014. The analysis will include the number of jobs created and filled, wages of new jobs, and an assessment of whether the same results would be achievable without a tax break. This legislation adds more transparency and oversight to DC's tax-based economic development strategies.

The District recently approved one economic development initiative that requires a particularly hard look – an initiative to grow the bourgeoning technology (or high-tech) sector. The District has a variety of programs to support tech start-ups and provides a rich set of subsidies and grants to all new tech companies. While the tech sector could be a major vehicle for future economic growth in DC, recent tax cuts that largely will benefit wealthy tech investors (starting in 2019) are unlikely to do much to promote the tech sector and are problematic for several reasons:

- Tax cuts for capital gains haven't been shown to increase investment.
- The cuts will be very costly and could reduce resources for programs that strengthen the workforce and improve the business climate.
- The 3 percent tax rate on tech investments would increase income inequality, because very wealthy residents could end up paying a lower income tax rate than DC's low-wage workers.

Instead of ineffective tax cuts, the District can promote tech investment by providing entrepreneurs with the upfront supports and resources they need. These include:

- Making investments in education and training to ensure that District residents are prepared to take high-tech, high-skilled positions.

- Easing access to capital for tech start-ups. Local efforts to build on federal Small Business Administration programs by providing guaranteed loans could help entrepreneurs get needed financing for their new businesses.

- Providing affordable workspace. The District should continue its support of tech incubators and consider targeted property tax assistance for tech businesses with limited revenue.

To read a full copy of the economic development transition brief, click here.