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DC Should Invest in Good Jobs, Not Economic Development Warfare

By Ed Lazere

It's Economic Development 101: DC should only give corporate subsidies when the District would get something in return, like new jobs for DC residents, and when the subsidy is necessary for the company's success. Yet the DC Council is considering a $5 million tax abatement for Chemonics—an international development company—even though it will not create new jobs, and even though an independent analysis finds the company does not need assistance. (Chemonics also has a recent history of racially discriminatory hiring practices; in 2016 they paid nearly $500,000 to Black applicants in a hiring discrimination case).

Instead, DC seems to be offering a tax break mostly because Virginia offered one, too. When jurisdictions lure companies across borders with tax breaks, that's economic development warfare. Like all wars, it leaves only losers. It will leave DC with less revenue, without doing anything to bolster the economy or create new opportunities for DC residents.

The Chemonics abatement—$650,000 per year for 9 years—is no different than DC writing the company a big check each year. It's the same as putting a $650,000 line item for Chemonics in the DC budget *every year for 9 years*. That means less money for the rest of the DC budget. The $650,000 proposed Chemonics subsidy could otherwise be used, for example, to start a pilot to put public bathrooms in downtown DC, which would improve the quality of life for visitors and help homeless residents who spend their days outside.

Tax abatements for economic development should have tangible economic benefits. Yet the proposed Chemonics tax subsidy would do exactly the opposite: in consolidating its staff who are currently split between DC and Northern Virginia, Chemonics would move its existing area employees into DC office space, without creating new jobs for DC residents. It would fill DC office space, but in the Navy Yard area—where subsidies to attract development shouldn't be needed.

Beyond that, Chemonics doesn't appear to need a tax cut to thrive in DC: an analysis by the DC Chief Financial Officer (CFO) concluded that the tax abatement would increase the company's profit margin to 3.6 percent from 3.5 percent, a nominal difference.[1] Instead, it appears that Chemonics wants to be in DC and asked for a tax abatement because Virginia offered one, not because they need it.

This economic development warfare doesn't serve anyone in the long-run. While the District may succeed in bringing Chemonics to DC today, we may lose another company to Virginia tomorrow because of tax incentives they offer. In the end, neither jurisdiction is stronger, but both find themselves with less money to support residents and businesses.

The better approach to economic development is to invest in the kinds of things businesses need. As the DC CFO's analysis notes, the District can best attract businesses by having "a skilled workforce, good public transportation, and quality of life,"[2] things that are harder to invest in when economic development is focused on tax breaks.

Click here to read DCFPI's full testimony at the Chemonics hearing.

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[1] Office of the Chief Financial Officer, Tax Abatement Financial Analysis for the "Amendment #1 to the 'Local Jobs and Tax Incentive Amendment Act of 2018,'" December 11, 2018, page 3.

[2] Ibid, page 3