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Things Money Can't Buy: Love, and Economic Development

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Money can't buy you love, of course. It can't buy economic development, either. The latest proof is Blackboard, the tech company that is leaving DC only four years after getting a big tax subsidy from the city and declaring themselves "firmly entrenched in DC."

The Blackboard announcement reminds us that tax incentives are a weak approach to economic development. Blackboard's premature departure, without any obligation to pay DC back, also is a reminder that that DC needs to do more to hold subsidy recipients accountable for real economic benefits, including subsidy "clawbacks" when deals are broken.

As a tech company, Blackboard qualified for DC's expansive high-tech subsidies, including a 5-year corporate income tax exemption and then a reduced rate every year after that, a property tax abatement, tax credits for employee wages, and more. DC also provided generous subsidies to help the company build out its DC office space, in return for committing to stay here 12 years. As Blackboard prepares to leave after only four years, there appears to be nothing to guarantee DC will get its money back.

Findings from DC's Chief Financial Officer (CFO) show that the millions DC spends every year on business tax subsidies are ineffective and wasteful:

- The city provides at least $40 million each year in "Qualified High Technology Company (QHTC)" tax incentives while asking very little in return from the beneficiaries.
- Much of the tax benefits go to corporations that were in DC before the incentives were created, suggesting they're getting tax subsidies for things they were already doing.
- No DC government agency is in charge of monitoring these tax breaks and whether they are making a difference. The CFO concluded that "we cannot determine what economic benefits are attributable to the incentives."

Tax incentives are rarely the deciding factor for a business to hire or invest within a given jurisdiction, according to the Institute on Taxation and Economic Policy (ITEP). That's because state and local taxes are only a small part of the cost of doing business—about 1.8 percent on average. ITEP concluded that as many as 90 percent of investment decisions subsidized with tax incentives would have occurred regardless of the incentive. Instead, research and common sense suggest that businesses locate where they can find a skilled labor force, a solid customer base, good public transit, a healthy environment, and more. Yet business tax subsidies eat up resources that otherwise could support these public investments.

Because business tax subsidies are written into the tax code, they can be hidden and difficult to oversee. The CFO analysis of DC's high-tech incentives in 2018, for example, was the first time the program had been evaluated since its creation in 2000.

The Blackboard example yields a lot of important lessons. First, companies move around for many reasons. Tax incentives rarely are the driving factor, and tax breaks won't keep companies from leaving. Second, tax incentives are ineffective because they mostly go to companies that would locate in the same community either way. Third, the best way for DC to build its business climate is by investing in things that really matter to businesses, including education and transportation.

It's time for DC to tighten up its economic development incentives, including accountability for companies like Blackboard to pay DC back when they take subsidies but fail to keep their commitments.