1889 INSTITUTE
Expanding Opportunity | Fighting Privilege

Policy Prescription

Independent, principled state policy fostering limited and responsible government, free enterprise, and a robust civil society.

September 2020

Policymaker's Guide to Evaluating Corporate Welfare

Tyler Williamson, Spencer Cadavero, and Byron Schlomach

For over two hundred years, Americans have derived enormous benefit from a free market system that encourages individual initiative and frowns upon government intervention. This system is predicated on the idea that economies best develop organically, that producers are beholden to consumers, and that government's direct involvement in markets can only distort them and cause resources to be used inefficiently. As a result, policymakers (especially conservative ones) often decry central planning – a system where government controls or influences the market – as ill-advised or even un-American. However, these same policymakers freely implement policies that are, by their very nature, central planning. One particularly egregious example is economic development subsidies – either direct grants or special tax breaks.

By one measure, Oklahoma grants the ninth most corporate subsidies of any state in the union.[1] But is this a top ten ranking worth pursuing?[2] Most subsidies and incentives fall under the umbrella of corporate welfare, which occurs anytime a business or class of businesses receives special, favorable treatment in tax law, regulation, or direct or in-kind subsidies that other businesses do not receive. Governor Stitt has been very vocal in his support of at least one form of corporate welfare, the Quick Action Closing Fund, which allows him to court businesses or corporations from other states to persuade them to relocate or expand into Oklahoma. However, these policies are bad economics and are, therefore, bad for the state. In addition, they often discriminate against homegrown taxpayers and otherwise pit Oklahomans against one another by violating fundamental principles of equality before the law and economic neutrality.

In what was ostensibly an attempt to eliminate Oklahoma's corporate welfare programs, the legislature created the Incentive Evaluation Commission (IEC) in 2015. In addition to providing simpler and possibly more effective criteria for evaluating programs to eliminate corporate welfare, this paper briefly describes the abysmal failure that the IEC has been.

Why Corporate Subsidies/Incentives Are Bad

The stated theory behind corporate incentives from governments is that they allow communities to compete for good jobs. However, by focusing on specific industries and businesses, policymakers often ignore the bigger picture of a state's overall policy structure. Indeed, the very nature of company-specific, negotiated incentives encourages cronyism of a type that can absolutely poison economic development by rewarding self-dealing behavior, which is practically the definition of corruption. By convincing people that productive behavior does not lead to success while corruption does, productive behavior is actively discouraged.[3]

Advocates of corporate welfare measures such as closing funds, tax abatements, and special kickback measures like tax increment finance (TIF), claim these measures expand the economic pie within their jurisdictions. However, there are good reasons to believe corporate welfare, at best, neutrally impacts the economy, but most likely has negative impacts.[4]

[C]orporate subsidies and incentives rarely actually benefit a state or locality.

Put simply, corporate welfare takes money from the pockets of hardworking existing residents and redistributes it to already-wealthy individuals and corporations in the name of creating jobs and stimulating economic growth. Consequently, corporate subsidies and incentives rarely actually benefit a state or locality. While new buildings and jobs for favored businesses are obvious enough, there are negative economic impacts that almost always go unseen. These can range in consequence from artificially rearranging how people live their lives, to raising the cost of living, to redistributing income, to negatively impacting economic

Tyler Williamson *and* ***Spencer Cadavero*** *are Research Associates with the 1889 Institute.*
Byron Schlomach *is Director at 1889 Institute.*

© 2020 by 1889 Institute.

1889 Institute
1401 N. Lincoln Boulevard, Suite 175
Oklahoma City, OK 73104
1889institute.org

Nothing written here is to be construed as an attempt to aid or hinder the passage of any bill before the Oklahoma Legislature.

This paper, in its entirety, can be found at **www.1889institute.org/**

growth. Any one or all of these impacts can and do result from corporate welfare measures.

Consider the following hypothetical example that illustrates several of the economic negatives that result from corporate welfare. Suppose the mayor and local economic development office of a town next to a busy highway decide their town's path to future prosperity is a gigantic, modern truck/travel stop. This business will sell gas, groceries, snacks, tourist trinkets, prepared foods, random automotive parts, and novelty items. It is bound to be a success because the corporation that will build it has succeeded elsewhere. New employment opportunities will result, and, hopefully, the store will drive traffic into the town's center, benefiting others nearby, not to mention the added tax revenue from non-residents. The only catch is that the business wants taxes reduced for ten years and some help buying the land.

So, the town's government makes the deal. Unbeknownst to the mayor, though, a local resident had been saving for years, spending money on consultants and architects, to build the truck stop business of his dreams. Though his ideas would have revolutionized the industry, his dreams are crushed and he uses his savings to buy land in a different town to live in quiet obscurity. This is an example of *lost opportunity*.

Residents, enamored of the sparkling new business, get their gas there instead of at the existing businesses where they had gone for years. They go there for the prepared food instead of ordering from the local eateries, at least for a while. As the new, subsidized business thrives, a few old businesses shut down. *Income is redistributed* from residents to the big corporation. Later, were the new business to shut down for some reason, the old businesses that had learned to survive do not easily come back, making life in the town more difficult, with some even deciding to move away, an example of *economic displacement*.

Finally, because the mayor and others so focused on the shiny new building and rubbing shoulders with the millionaires asking for subsidies, a promising tourism project by another local languishes. Requested zoning changes are ignored, along with requests for a few modest road improvements. The local's interest in the project wanes, and we see an example of how political judgment is a poor substitute for free enterprise.

In the end, the town has been at least somewhat remade. A few buildings are abandoned, housing is cheaper now that several families have moved away, and those with jobs at the new truck stop are doing well enough. A new town hall goes up, though with more public debt required than was anticipated because the expected bump in revenue from the truck stop wasn't as big as the economic development consultant estimated. Unfortunately, few of the highway's travelers venture into town at all. So, despite the economic development authorities' intent to create some sort of sustained economic growth through the corporate welfare they advocate, the net gain is most likely slim to none, temporary, and often negative.[5]

There are plenty of non-hypothetical examples of the market distortion that subsidies cause. Walmart is one of the most subsidized corporations in the United States.[6] It consistently receives subsidies to build distribution centers, Supercenters, and discount stores. As a result, due to freed up capital (and the probability of gaining subsidies in the future), Walmart has the ability to try experiments such as the "Express Walmart," placing over one hundred Express stores in small towns across the United States, hoping to compete in these smaller markets.

After the new Express Walmart opened, a locally owned grocery store in North Carolina saw a thirty percent decrease in sales almost immediately and was eventually forced to close due to an inability to compete for customers.[7] Proponents of these subsidies point to the "job growth" created by the new store opening but fail to take into account the detriment caused by the reduction or elimination of smaller competitors.[8] To make matters worse, when the stores were not as successful as they had hoped, Walmart shut them down. A headline from Financial Post sums the situation nicely: "Small towns devastated after Wal-Mart Stores Inc decimates mom-and-pop shops, then packs up and leaves: 'They ruined our lives.'"[9] In essence, Walmart placed stores in small towns, inevitably ran the other grocery stores out of business due to their greater selection and ability to undercut prices, and then pulled up shop when the stores did not turn a big enough profit.

Economic displacement happens all the time in a dynamic market economy, and when it does so without artificial incentives that substitute government officials' judgment over that of consumers, this displacement works to the benefit of us all. It is an inevitable downside to progress. But when non-market considerations prevail, such as favorable tax treatment and outright grants, the displacement that occurs might not be progress at all, or we might lose out on even greater progress that would have prevailed had purely market-based considerations been in play.

But when non-market considerations prevail, such as favorable tax treatment and outright grants, the displacement that occurs might not be progress at all ...

Bass Pro Shops has made it their corporate strategy to only expand where they can get subsidies by offering promises that often fail to materialize. In Oklahoma City, Bass Pro Shops received subsidies to open a store downtown. They promised increased business and tax revenues, and that it would be a statewide tourist attraction. They even promised the city a percentage of their profits over $45 million. The store never reached that level of profit. Just two years later, Bass Pro Shops lobbied Broken Arrow for subsidies to open a new store. Not only did this undermine their promise that the Oklahoma City location would be a statewide tourist attraction, but part of their pitch was that the new store would take business away from Oklahoma City.[10]

The city of Mesa, Arizona, offered $84 million dollars in incentives to develop their Riverview waterfront, which is anchored by a Bass Pro Shops store. It was promised that the new development project would attract new businesses to the city. They only succeeded in attracting businesses to move from other parts of the city to the new development for the subsidies, producing no net economic positive to the city.[11] The biggest

victim was the city's Fiesta Mall, which had to shutter its doors in 2018.[12] Even with businesses relocating, the development failed to attract new tenants, and never reached close to the promised $5.7 million in annual sales tax revenue. The development has been described as a ghost town.[13] These kinds of broken promises are all too common with corporate welfare.

By nature, subsidies are intended to benefit specific businesses or industries (at the expense of taxpayers). They create a competitive advantage for those businesses or industries in the process, all funded by hardworking taxpayers and working to the detriment of unsubsidized businesses or industries.[14] Thus, the government picks winners and losers, bestowing favored status on one business over another, generally distorting industry growth. In addition, studies have shown that businesses/industries that receive subsidies are no more likely to create jobs or economic growth than those that do not.[15] In fact, subsidized businesses may be *less* productive than otherwise because of the time and money directed to relatively unproductive activities to ensure the subsidies remain in effect.

A Guide to Avoid Corporate Welfare

The following is a list of questions by which policymakers can analyze whether proposed or existing policies constitute corporate welfare. Some of these questions seek to distinguish corporate welfare from good tax policies, which are sometimes confused for corporate welfare.[16] This is not intended to be a flowchartable decision tree. Rather, the questions listed are intended to aid in thoughtful evaluation of proposed and existing subsidies in order to avoid corporate welfare in the form of grants, direct subsidies and specially favored tax treatment.

Question 1:

Is this a direct grant of funds or reduction in taxes to a private entity without an expectation of direct consideration (performance of services or provision of goods) to the government making the grant?

If the answer to this question is *Yes*, then the program or action that results in the grant or tax consideration is very likely an example of corporate welfare.

If the answer is *No*, the program or action in question is likely legitimate, although the remaining questions should still be asked.

Corporate welfare is most apparent when a jurisdiction effectively hands a business a check for nothing more than existing within the jurisdiction. Oklahoma has a fund that enables the governor to do just that: the Quick Action Closing Fund. Under this program, the governor has the ability to simply give businesses money in return for locating their facilities in Oklahoma. The businesses receiving these funds are not poor businesses; they are primarily multi-billion dollar corporations such as Boeing and General Electric.[17] These companies hardly lack the funds to build new factories. What's more, they could bring *every* employee from out-of-state and *still* qualify for this and other corporate welfare programs in Oklahoma.

If the state hands out a check for an investment or employment expansion the business would have done anyway, such as moving to an advantageous location and employing people there, then policymakers are wasting money on a politically advantageous vanity project. If the payment convinced the business to take the desired action, which would mean the government money

If governments are engaged in a corporate welfare competition across the nation, this has a negative impact on the economy from a national perspective.

reduced the cost of locating to a less than ideal location, then policymakers bribed the business. In this case, a company will, by definition, have expanded into a less than ideal location. This slows the company's growth, and thus its ability to hire more employees. If governments are engaged in a corporate welfare competition across the nation, this has a negative impact on the economy from a national perspective. It also has a corrosive effect on people's confidence in their government.

A grant does not have to take the form of an outright, direct, one-time payment. It can also take the form of many payments over time, perhaps in the form of tax refunds. It can also take the form of rules that reduce tax liability for a fixed period of time, which means the only paper evidence of the grant is a line on a tax form. This includes tax credits specific to favored industries or companies locating in selected areas. In the case of Tax Increment Finance Districts (TIFs), the grant does not necessarily get recognized on a company's accounts in any way, not even on a tax form. Taxes are paid, but the grant is in-kind in that the business sees highly localized infrastructure spending benefitting it that other taxpaying businesses within the same polity, but not in the TIF district, do not enjoy.

Cutting a check to a business without expecting consideration is legitimate when the business receives a refund for overpaying the same taxes every other business pays. Obviously, if the government cuts a check to a business in exchange for goods or services, this is the sort of legitimate transaction no one considers corporate welfare. The issue then becomes whether or not the business provides what is promised. When businesses do not provide that which is promised under a normal contract for goods or services, they are generally held to account. If policymakers fail to hold them to account, the policymakers are considered incompetent or corrupt. Since the evidence is that corporate welfare rarely, if ever, lives up to the promises of policymakers, the conclusion to draw about incompetence and/or dishonesty seems obvious.

Question 2:

Does a grant of funds or tax consideration apply to every similarly-situated business?

If the answer to this question is *Yes*, then the program or action in question is likely *not* corporate welfare. It is probably a tax cut, refund, or effort to avoid distortions otherwise caused by the tax code (See question 4).

If the answer to this question is *No*, then this is very likely an example of corporate welfare.

Typically, the exclusivity of a specific incentive or subsidy is a good indicator of whether or not it is corporate welfare. Subsidies to specific businesses or class of businesses create economic

distortions. The receiving business is given the advantage of extra funds, shifting some of the cost of doing business to taxpayers. This allows the business to avoid downsizing and bankruptcy more easily, or it gives it the means to gain a competitive advantage over other businesses in circumstances where it otherwise could not. By contrast, non-privileged businesses have to make major changes or shutter their doors when they go bankrupt, and might even be driven to such measures by corporate welfare granted to others.

Giving subsidies to specific businesses or industries encourages companies to lobby politicians for these subsidies, rather than spending money on innovating.

Giving subsidies to specific businesses or industries encourages companies to lobby politicians for these subsidies, rather than spending money on innovating. The businesses benefited by this are often larger and more politically connected. Regardless, political activity that interferes in otherwise freely functioning markets and fails to reform institutions to bring greater productivity merely rearranges who owns wealth and ultimately weakens an economy and the society it serves.

Question 3:
Does an apparent tax advantage put businesses on an equal footing?

If the answer is *Yes*, this is obviously not corporate welfare.

If the answer is *No*, then the apparent tax advantage is exactly that and is an example of corporate welfare. An excellent example is the wind generation tax credit, now repealed in Oklahoma, but ongoing on a grandfathered basis.

Not all businesses and industries are alike, so it is worth considering whether they should all be taxed alike. The legal industry's investment is largely in attorneys' knowledge gained in law school and from experience. Compared to its investments in office space and equipment, the legal industry's intangible investment in the mind is far more valuable. The intangible is difficult to tax. Compare this to the value of tangible investments in machinery and inventories, which are easily taxed, in other industries. Some different tax treatment, perhaps by taxing service industries more heavily outside the property tax, might put services on a more equal tax footing compared to heavy industry.

If the state offers an exemption or a lower tax rate to businesses that run slim profit margins, such as grocery stores or gas stations, but does not do so for businesses that run wider profit margins (such as jewelers) this could be an example of a policy that seeks to equally burden the businesses as opposed to serving as corporate welfare. Gas stations and grocery stores run slim profit margins, being dependent on sales volume; consequently, a two percent tax rate on gross receipts, for example, burdens them much more than it does businesses operating on wider profit margins. A policy of charging different tax rates might not be corporate welfare if it attempts to put businesses on equal footing.

Exceptions:

Sometimes, tax incentives and subsidies get confused with economically sound tax policy. The following section includes two examples of what might appear to be corporate welfare, but may actually be efforts to make policy as neutral as possible, or might be an effort to attain greater efficiency. This is not meant to exhaust all instances of mistaken corporate welfare identify, and does not preclude other policies from being legitimate exceptions. Rather, these are two widely agreed upon exceptions that are actually sound policy.

Question 4:
Is the purpose of this policy to avoid tax pyramiding?

If the answer is *Yes*, this is likely an example of well-considered tax policy to avoid economic distortion.

If the answer is *No*, then the policy cannot be dismissed as example of corporate welfare.

Tax pyramiding occurs when a product is taxed at multiple stages of production, as when a sales tax is applied at every stage of production where inputs are sold across companies. As a result, the final sales tax will be partially a tax on taxes from earlier production stages. This inflates the cost of the final product and distorts consumer purchasing decisions since taxes will inflate the final price of products differentially according to the number of stages. Production is also distorted as producers attempt to avoid the tax by integrating the stages of production within a single company. This is frequently not efficient due to differential expertise.

So for example, if a soda maker pays sales taxes on cans, carbon dioxide gas, and cardboard cartons, these taxes are factored into the price of the soda even before the consumer purchases it and pays more sales tax. This raises the effective tax rate on a good in a non-transparent way. It also artificially raises the price consumers pay for a good, and does not proportionally impact all final prices the same way, distorting consumer choices.

Another reason to avoid tax pyramiding is that it discourages firm-to-firm transactions and encourages vertical integration (single-company ownership of suppliers, distributors, etc.). In essence, if you tax every stage of production, companies will integrate to avoid a larger tax hit. This does not make them more efficient but is simply a way to avoid taxes. For example, the soda producer might also seek to buy can, gas, or cardboard suppliers to avoid taxes. Unless he is exceptional, the manager in charge of all these operations is not likely to be expert in all of them, and inefficiency will likely result, although tax savings might offset the costs from inefficiency.

Question 5:
Is the policy compensating a company for public infrastructure the company provided?

If the answer is *Yes*, then the policy would not be an example of corporate welfare.

If the answer is *No*, then the policy could be an example of corporate welfare.

Providing infrastructure such as roads and sewers is one of

When a private business builds roads or other infrastructure it needs to operate but is or can be part of a wider, integrated infrastructure network, the government should compensate them.

the legitimate functions of government. When a private business builds roads or other infrastructure it needs to operate but is or can be part of a wider, integrated infrastructure network, the government should compensate them. For example, if a business makes initial road or sewer investments that can benefit the wider community, it might receive reduced property or sales taxes for a time in order to compensate for what should be public investment costs.

This only applies to when the infrastructure built by the private business is generally accessible to everyone and easily extended to others. Businesses that build a road or other infrastructure that only extends into their private property should not be reimbursed for that expense.

In sum, if the answer to Question 1 is *Yes*, and the answer to Questions 2 through 5 is *No*, a policymaker can be very nearly certain that the policy in question is corporate welfare. That policy should be rejected – either repealed or never implemented in the first place.

it must be clear that the policy provides some obvious benefit that accrues to everyone to some degree. Corporate welfare clearly violates this principle and could be avoided on this basis alone.

A bottom-line principle that sums up the discussion above comes from 1889 Institute's publication, *Rising Above Mere Politics: General Principles for Spending Taxpayers' Money*. This is that the benefits from spending taxpayer funds or from redistributing tax burdens must be *unambiguous, obvious, and universal*. In other words, it must be clear that the policy provides some obvious benefit that accrues to everyone to some degree. Corporate welfare *clearly* violates this principle and could be avoided on this basis alone. TIF districts established in Tulsa, for example, place a burden on the whole state, but do not even benefit everyone in Tulsa.[18] As stated in the *Rising Above* publication, "…it is the height of tyranny to exact tribute from an individual for a purpose that accrues no benefit at all, or even harm, to that individual."[19]

The State's Failed Attempt to Evaluate Itself

The Incentive Evaluation Commission (IEC) was formed in 2015 to annually evaluate existing tax subsidies, ostensibly to eliminate as many of them as possible. The 1889 Institute reviewed the IEC's first report, released in 2016, and found that the IEC offered no real benefit to the state or lawmakers in their recommendations. In fact, of the 11 subsidies the IEC evaluated, they only recommended repealing four of them.[20] One of the subsidies they recommended repealing, the wind energy income tax credit, was already on the chopping block given widespread consensus among lawmakers that the subsidy should be repealed. The IEC claimed their repeal proposals would net $116 million in state savings, with the wind credit subsidy accounting for *$113 million* of the total. In effect, total savings attributable to truly original IEC recommendations totaled a mere $3 million.[21]

In the four years since that initial 2016 report, the IEC has not become bolder. From 2017-2019 the IEC produced three reports and evaluated 32 subsidies, but only recommended repealing 11 of them.[22] Of these, four were judged to be poor returns on investment, three were not being used anyway, and four had *already* been repealed by the legislature. In one case, the IEC reviewed the Energy Efficient Residential Construction Tax Credit *two years* after it was already repealed.[23] As with its very first report, when they padded their savings numbers with a single program already on the chopping block, the IEC has sought to hide its ineffectiveness by including programs in its reports that were repealed long before publication.

The IEC attempts to gauge the effectiveness of a program by estimating the number of jobs added in the state due to the incentive, the return on investment, and overall economic impact. These estimates are based on models that cannot accurately depict the impact of a policy and are more akin to economic guesswork through modeling.[24] The IEC contracts with the PFM (Public Financial Management) Group, an outside consulting firm, to do their analysis and formulate recommendations. PFM has conflicts of interest given its services for various local governments, whose officials often politically benefit from the sort of programs being evaluated by the IEC. What's more, the IEC is chaired by the President of the Duncan Area Economic Development Foundation, a publicly-supported and instituted organization that exploits programs the IEC is evaluating.[25]

So, what happens when the IEC gets it right? Even when the IEC makes the occasional sensible recommendation, the legislature ignores them. In their 2016 report, the IEC recommended that the Oklahoma Film Enhancement Rebate be allowed to sunset in 2024. Rather than lend any credence to the IEC's weak recommendation, which should have been immediate repeal, the legislature decided to *extend* the program's sunset date to 2027.[26] Clearly the IEC provides no legitimate service to the state.

Why Policymakers Favor Corporate Welfare

Lawmakers claim to implement corporate welfare measures in the hopes of stimulating the economy, creating jobs, or creating an industry "cluster" (areas with a high concentration of similar industries that share markets, technology, skill needs, and other factors), but there is no evidence these policies succeed in the bigger picture of encouraging growth. Clusters typically form organically due to circumstances out of lawmaker control or simply by happy coincidence. While attempts to subsidize them into existence can lead to apparent success by encouraging investment in a particular area, such policies do not result in

innovation that would not have already occurred. In fact, by artificially encouraging investment in an area where it would not have organically occurred, investment in real innovation could be discouraged. On the other hand, a competitive environment of low taxes across the board encourages organic and efficient investment that truly leads to new innovation that benefits everyone.

The goal of policy should be to distort the true costs of innovation and investment as little as possible.

The goal of policy should be to distort the true costs of innovation and investment as little as possible. The goal should be to have the true costs of actions taken by private actors fully recognized by them so that resources are allocated to their most valued uses. Some regulation regarding pollution, for example, is justified, because costs of a company's action on others that otherwise might not be fully recognized are forced onto that company and a better allocation of resources results. But government policies that artificially lower costs for some and not for others are just as distorting to society as failing to force a company polluting a river to recognize the costs it is imposing on people downstream.

If the evidence against corporate welfare policies like subsidies and tax breaks is so weighty, why do policymakers continue to implement them? One answer politicians routinely give is that they must offer subsidies in order to compete with other jurisdictions that offer corporate welfare. If they do not, the argument goes, a policymaker's jurisdiction will miss opportunities for businesses or industries to locate or expand in the jurisdiction. However, academic research indicates that expansion decisions made by businesses that received government incentives were not substantially impacted by incentives 75 to 98 percent of the time.[27]

There is another, more likely answer to why policymakers offer economic incentives (read corporate welfare): political capital. Granting favored status to big businesses allows politicians and heads of economic development offices to rub shoulders with the rich and powerful while also getting their chance for ribbon-cutting photo opportunities that give these policies the appearance of success. These opportunities are so politically beneficial that policymakers are willing to waste taxpayer money and distort the market to reap those benefits. A better question might be: why do we continue to tolerate such behavior from our elected representatives?

Solutions

Sound Tax Policy

One way for states to compete without offering massive subsidies is to have a tax code that creates an attractive environment for business, investment, and general living. Although it has hurt itself with some of the corporate welfare policies criticized above, the state of Texas has seen its outsized success largely from following the "Texas Plan," which emphasizes free markets and low tax policies. For example, from 2007-14 Texas spent $92 per capita in economic development spending, but had greater than 19 percent job growth. In contrast, states like Ohio, New Jersey, and Michigan spent three to five times as much and had *negative* job growth.[28]

A lower overall tax burden will make a state an attractive option for any business. In addition, lower levels of economic meddling by the government (read economic development programs) will lead to greater growth. Unfortunately, whether justified or not, there is the fear that without subsidies some states will lose business to other states that continue to offer them. As a result, states are engaged in an economically destructive race to the bottom with taxpayers footing the bill. This is the same sort of destructive economic competition states engaged in prior to the passage of the U.S. Constitution. Every state had the right to raise tariffs on anyone, including other states. Subsidies, whether direct or through taxes, are just the other side of the same destructive coin.

Absolutely No Incentives for Retail and Distribution

Retail stores and distribution centers locate where people are located. Corporate welfare makes a difference in where they locate only insofar as cities, such as in metro areas, have grown together and a small difference in location determines who gains the tax revenue. No true economic development argument can be made for subsidizing businesses such as Wal-Mart and Bass Pro Shops.[29] A positive step would be banning all subsidies for retail and distribution centers. This would eliminate a large chunk of what cities and states spend in taxpayer dollars to bribe businesses to locate there. Banning these subsidies would also allow for local businesses without a lobbying arm to better compete with the large, politically-connected chains.

A Compact to End Corporate Welfare

Of course, the real solution would be to end all so-called economic incentives completely. No government should bribe businesses to set up shop within their borders. Nor should they prop up failed business ventures. The benefits never justify the costs.

The most realistic solution to this issue, absent Congress properly stepping in to end destructive cross-government competition subsidies just as it did by eliminating cross-state tariffs, is an interstate compact. In essence, states sign onto a compact that bars them from attempting to lure businesses (via subsidy) from other states within the compact. The more states that join the compact, the more viable this option becomes.[30] The Mackinac Center for Public Policy in Michigan and the 1889 Institute lay out such a proposal in detail in *Multilateral Disarmament: A State Compact to End Corporate Welfare,* which attempts to avoid the mutually assured destruction created by corporate welfare.[31]

Policymakers in the state of Oklahoma must pursue policy that will benefit all the people, not just specially selected corporations ...

Conclusion

Policymakers in the state of Oklahoma must pursue policy that will benefit all the people, not just specially selected corporations, and not continue to waste taxpayer dollars on programs with little to no benefit to the state as a whole. Using the guide in this paper, policymakers can now begin to evaluate the plethora of proposed and existing corporate subsidies/incentives with the hope that they will enact sound tax policy that evenly applies to all businesses and industries in the state. In so doing, they will create an environment in which all Oklahoma businesses can flourish. If the legislature continues to bestow corporate welfare, they will continue to line the pockets of large corporations at the taxpayers' expense.

End Notes

1889 INSTITUTE

1 Byron Schlomach, Steven Slivinski, and James Hohman, *Multilateral Disarmament: A State Compact to End Corporate Welfare*, Mackinac Center for Public Policy and the 1889 Institute, 2019, https://img1.wsimg.com/blobby/go/8a89c4f1-3714-49e5-866b-3f6930172647/downloads/Compact%20Corp%20Welfare.pdf?ver=1553806216346

2 Mike Davis, *Ten Top Tens: State Rankings Worth Pursuing*, 1889 Institute, February 2019, https://img1.wsimg.com/blobby/go/8a89c4f1-3714-49e5-866b-3f6930172647/downloads/1889_TenTopTens.pdf

3 Daron Acemoglu and James A. Robinson, *Why Nations Fail*, (New York: Crown Business, 2013).

Schlomach et al., *Multilateral Disarmament…*, 11.

4 Scott A Wolla, "The Economics of Subsidizing Sports Statdiums," *Page One Economics*, May 2017, https://research.stlouisfed.org/publications/page1-econ/2017-05-01/the-economics-of-subsidizing-sports-stadiums/

Byron Schlomach, *Tax Increment Finance and Suggestions for Reform*, 1889 Institute Policy Analysis, August 2016, https://qkm.4a8.myftpupload.com/wp-content/uploads/2020/01/1889_Tax-Increment-Finance.pdf.

Nathan M. Jensen, *Evaluating Firm-Specific Location Incentives: An Application to the Kansas PEAK Program*, Ewing Marion Kauffman Foundation, 2014, https://perma.cc/M2LN-WV2Q

Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives," *Journal of the American Planning Association* 70, no. 1 (2004): 32

5 Matthew Mitchell, Daniel Sutter, and Scott Eastman, "The Political Economy of Targeted Economic Development Incentives" *The Review of Regional Studies* 48, no. 1 (2018) https://www.mercatus.org/system/files/1184-article_text-3263-2-10-20180306.pdf

6 "Amazon Close to Breaking Walmart Record For Subsidies," Good Jobs First, March 20, 2017, https://www.goodjobsfirst.org/news/amazon-close-breaking-wal-mart-record-subsidies

7 Shannon Pettypiece, "Walmart: It Came, It Conquered, Now It's Packing Up and Leaving," *Bloomberg Business*, January 25, 2016, https://www.bloomberg.com/news/articles/2016-01-25/wal-mart-it-came-it-conquered-now-it-s-packing-up-and-leaving

8 David Neumark,, Junfu Zhang, Stephen Ciccarella, "The Effects of Walmart on Labor Markets," *Journal of Urban Economics* 63, no. 2008 (August 2007) http://www.economics.uci.edu/~dneumark/walmart.pdf

9 Bloomberg, "Small towns devastated after Wal-Mart Stores Inc decimates mom-and-pop shops, then packs up and leaves: 'They ruined our lives,'" *Financial Post*, January 25, 2016, https://financialpost.com/news/retail-marketing/small-towns-devastated-after-wal-mart-stores-inc-decimates-mom-and-pop-shops-then-packs-up-and-leaves-they-ruined-our-lives

10 Andrew Stecker and Kevin Connor, *Fishing For Taxpayer Cash*, Public Accountability Initiative, September 2011, https://public-accountability.org/wp-content/uploads/2011/09/fishing_for_taxpayer_cash.pdf

11 Stecker et al. *Fishing For Taxpayer Cash*, 11.

12 Lily Altavena, "Fiesta Mall closing: Here's what's planned at former Mesa retail giant" *azcentral*, January 27, 2018, https://www.azcentral.com/story/news/local/mesa/2018/01/27/fiesta-mall-mesa-cl*osing-campus-60/1063967001/*

13 Stecker et al. Fishing For Taxpayer Cash, 12.

14 Neumark et al., *The Effects of Walmart on Labor Markets*, 428.

15 Nathan M. Jensen, *Evaluating Firm-Specific Location Incentives: An Application to the Kansas PEAK Program*, Ewing Marion Kauffman Foundation, 2014, https://perma.cc/M2LN-WV2Q

16 Schlomach et al., *Multilateral Disarmament…*, 9.

17 Oklahoma, Incentive Evaluation Commission, *Quick Action Closing Fund Evaluation*, https://iec.ok.gov/sites/g/files/gmc216/f/Quick%20Action%20Closing%20Fund_11.20.18_FINAL.PDF

18 Schlomach, *Tax Increment Finance and Suggestions for Reform*.

19 Byron Schlomach, *Rising Above Mere Politics: General Principles for Spending Taxpayers' Money*, 1889 Institute, 2017, https://qkm.4a8.myftpupload.com/wp-content/uploads/2020/01/1889_Rising-Above-Mere-Politics-Full.pdf

20 Oklahoma, Incentive Evaluation Commission, *Tax Incentive Evaluation Report 2016*, https://iec.ok.gov/sites/g/files/gmc216/f/Tax%20Incentive%20Evaluation%20Report%202016.pdf

21 Byron Schlomach, *Critique of the Incentive Evaluation Commission's Tax Incentive Evaluation Report: 2016*, 1889 Institute, 2017, https://qkm.4a8.myftpupload.com/wp-content/uploads/2020/01/1889_Critique-IEC.pdf

22 Oklahoma, Incentive Evaluation Commission, *Tax Incentive Evaluation Report 2017*, https://iec.ok.gov/sites/g/files/gmc216/f/IECFinalReport-2017.pdf

Oklahoma, Incentive Evaluation Commission, *Tax Incentive Evaluation Report 2018*, https://iec.ok.gov/sites/g/files/gmc216/f/IECFinalReport2018.pdf

Oklahoma, Incentive Evaluation Commission, *Tax Incentive Evaluation Report 2019*, https://iec.ok.gov/sites/g/files/gmc216/f/IEC2019FinalReport.pdf

23 Oklahoma, Incentive Evaluation Commission, *Energy Efficient Residential Construction Tax Credit Evaluation*, https://iec.ok.gov/sites/g/files/gmc216/f/IECFinalReport2018.pdf

Oklahoma, Incentive Evaluation Commission, *Re-established Production Rebate Evaluation*, https://iec.ok.gov/sites/g/files/gmc216/f/Re-EstablishedProductionRebate.pdf

Oklahoma, Incentive Evaluation Commission, *Economically At-Risk Lease Tax Credit*, https://iec.ok.gov/sites/g/files/gmc216/f/Economically%20At-Risk%20Lease_Draft_09.29.17.pdf

24 Oklahoma, Incentive Evaluation Commission, *2020 Preliminary Incentives Criteria for Evaluation* https://iec.ok.gov/sites/g/files/gmc216/f/IECMemoCriteria2020.pdf

25 "About: Commissioners," Incentive Evaluation Commission, accessed September 18, 2020, https://iec.ok.gov/about/commissioners

"About Us: Meet the Team," Duncan Area Economic Development Foundation, accessed September 18, 2020, http://ok-duncan.com/about-us/meet-the-team/

26 Oklahoma, Incentive Evaluation Commission , *2016 Incentives Changes Review*, https://iec.ok.gov/sites/g/files/gmc216/f/2016IncentivesChangesReview.pdf

27 Timothy J. Bartik, "'But For' Percentages for Economic Development Incentives: What Percentage Estimates Are Plausible Based on the Research Literature?" (Working Paper, W.E. Upjohn Institute for Employment Research, Kalamazoo, MI, July 1, 2018), 16, 20. https://research.upjohn.org/cgi/viewcontent.cgi?article=1307&context=up_workingpapers

28 Bill Peacock, *Growing the Economy Without Government: Eliminating Taxpayer-finded Corporate Subsidies*, Texas Public Policy Foundation, 2014, https://files.texaspolicy.com/uploads/2018/08/16101606/EconomicDevelopmentTexasStyle-CEF-BillPeacock.pdf

29 Kathryn Bailey, "In Downturn, States Reevaluate Tax Incentive Programs," *Georgetown Public Policy Review*, January 25, 2011, http://gppreview.com/2011/01/25/in-downturn-states-reevaluate-tax-incentive-programs/.

30 Michael D. Farren and Matthew D. Mitchell, *An Interstate Compact to End the Economic Development Subsidy Arms Race*, Mercatus Research, 2020, https://www.mercatus.org/system/files/farren-economic-subsidies-mercatus-research-v1.pdf

31 Schlomach et al., *Multilateral Disarmament…*, see endnote 1.