Issue Brief 0805
June 2008

Public Assets Institute
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Measuring Economic Development: What Do Subsidies Buy?

by Jack Hoffman

The Vermont Legislature is taking another run at figuring out what the state is getting for all of its economic development efforts. Existing laws that would enable evaluation have been ignored for years. So the House and Senate passed another measure this year designed to produce useful performance data on the many grants, tax breaks, job-training programs, low-interest financing, and other benefits the state offers to businesses promising to locate or expand in Vermont.

Some states are starting to look more critically at the subsidies going to business, especially the tax breaks often demanded by big retail chains such as Wal-Mart or Cabela's. Critics of these subsidies argue that the money would be better spent on general infrastructure improvements that would help everyone, not just a few favored companies.

In big urban centers, where federal, state, and local government support is often provided for redevelopment projects, community activists and local officials are demanding direct benefits for neighborhood residents – jobs and job-training from redevelopment contractors, public transportation facilities, neighborhood groceries, and other improvements.

Since 1995, Vermont has had a law requiring the commissioner of economic development to report to the Legislature each January on all economic development assistance provided to Vermont businesses, including assistance supported directly or indirectly with federal or state funds. The comprehensive reports specified in statute are meant to provide information about who is getting the development assistance and the number and quality of jobs created or retained.

The Legislature has no record of ever receiving such an "incentives benchmark report."

The Department of Economic Development does submit some performance information about specific programs. It also relies on reports filed by other agencies or state entities to fulfill the reporting requirement. But there is no single comprehensive report, according to a department spokesperson, "due to the complexity and significant unfunded cost of creating what is called for."

Now the Legislature has passed a new bill, recently signed into law, designed to bring consistency to the way state agencies measure the performance of economic development programs. The law requires the commissioner of finance and management and the secretary of commerce and community development to prepare a "unified economic development budget" each year and submit it to the Legislature as part of the annual budget. Again, the purpose is to allow lawmakers to assess the effectiveness of the state's efforts to promote job creation. The new law also requires the commissioner of finance and management to present a report to the Legislature on ways to consolidate and coordinate all the other reports now required on economic development assistance.

The commissioner's report is due in January.

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