



More Reason to be Skeptical of Economic Development Incentives

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If you're hoping that a new report on Kansas City's economic development incentives accurately assesses their value, I've got some bad news. Based on the draft copies of the [always coming, never arriving](#) report sent to me in response to an open records request, the report has one glaring and fatal flaw: It fails to address the much-maligned "but-for" analysis.

For a development project to receive tax-increment financing (TIF), one of the most popular subsidies, two boxes must be checked: A property must be declared blighted, and the proposed project must pass the but-for test. (We've written much about the [largely meaningless blight standard](#) before.) The but-for test, in short, is proof that a project wouldn't go ahead in the absence of public assistance. Developers often support this claim by showing that a project would not be profitable without the public assistance, or in many cases *not profitable enough* for their tastes.

Much of the research on TIF subsidies in Missouri and around the country focuses exactly on that but-for analysis. Studies consistently find that TIF-treated areas grow economically at the same pace as non-TIF-treated areas. *This means that cities are subsidizing development that is just as likely to happen without the subsidy*—regardless of what the applicant tells you. [TIF applications](#) sometimes rely *solely on the applicant's own claim* that without subsidies they would not build.

A new working paper from the [Upjohn Institute for Employment Research](#) underscores this exact problem in Kansas City when it concludes in part, “Overall, the research literature on incentives’ ‘but for’ effects is not as rigorous as one might hope.” No kidding. The paper sums up its findings as follows:

Based on a review of 34 estimates of “but for” percentages, from 30 different studies, this paper concludes that typical incentives probably tip somewhere between 2 percent and 25 percent of incented firms toward making a decision favoring the location providing the incentive. *In other words, for at least 75 percent of incented firms, the firm would have made a similar location/expansion/retention decision without the incentive.* Many of the current incentive studies are positively biased toward overestimating the “but for” percentage. Better estimates of “but for” percentages depend on developing data that quantitatively measure diverse changes in incentive policies across comparable areas. [Emphasis mine.]

If the draft report being passed around between the [CDFA and Kansas City](#) is any indication, not only does it fail to seriously analyze “but for” claims—unlike a [similar study conducted in St. Louis](#)—it barely mentions but-for whatsoever. That means we are being asked to assume that developments that come *after* subsidies are granted come *because* subsidies are granted—a basic logical fallacy. Kansas City leaders had [the time and resources to commission a more thorough analysis](#) of city incentives, and they chose not to. What they got instead was a report that mimics the failures of their policies.

Tags:

- [TIE](#)

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