

ENTREPRENEURSHIP POLICY DIGEST

JUNE 11, 2014

ENTREPRENEURSHIP'S ROLE IN ECONOMIC DEVELOPMENT

For decades, one of the principal state and local economic development tools has been tax incentives. Every state offers incentives in one form or another to retain business and attract businesses from other states. According to one survey, [95 percent](#) of U.S. municipalities also use such incentives.

Some policymakers have expressed a desire to end this practice but feel stuck in an arms race. They fear they cannot unilaterally forgo incentives because others use them, so they create ever-increasing incentive packages in an effort to compete. Although some incentives may be economically justified in terms of jobs and productivity, in the midst of an arms race it's difficult to tell what is and is not effective in creating jobs.

One thing that is known is that this practice costs taxpayers billions of dollars each year. Estimates put the annual cost near [\\$70 billion](#). Moreover, incentives targeting existing companies miss the economy's real engine of job creation: new and young businesses, which create nearly all [net new jobs](#) in the United States, a fact that also holds true at the state and city level.

Policymakers have heard these arguments before, but need ideas, not criticism. The Kauffman Foundation hosted a [conference](#) of state legislators, mayors, researchers, and leading thinkers to discuss two themes related to incentives. First, **how can incentive programs be improved to better promote economic growth?** Second, **what alternative strategies exist for promoting economic development through entrepreneurship?**

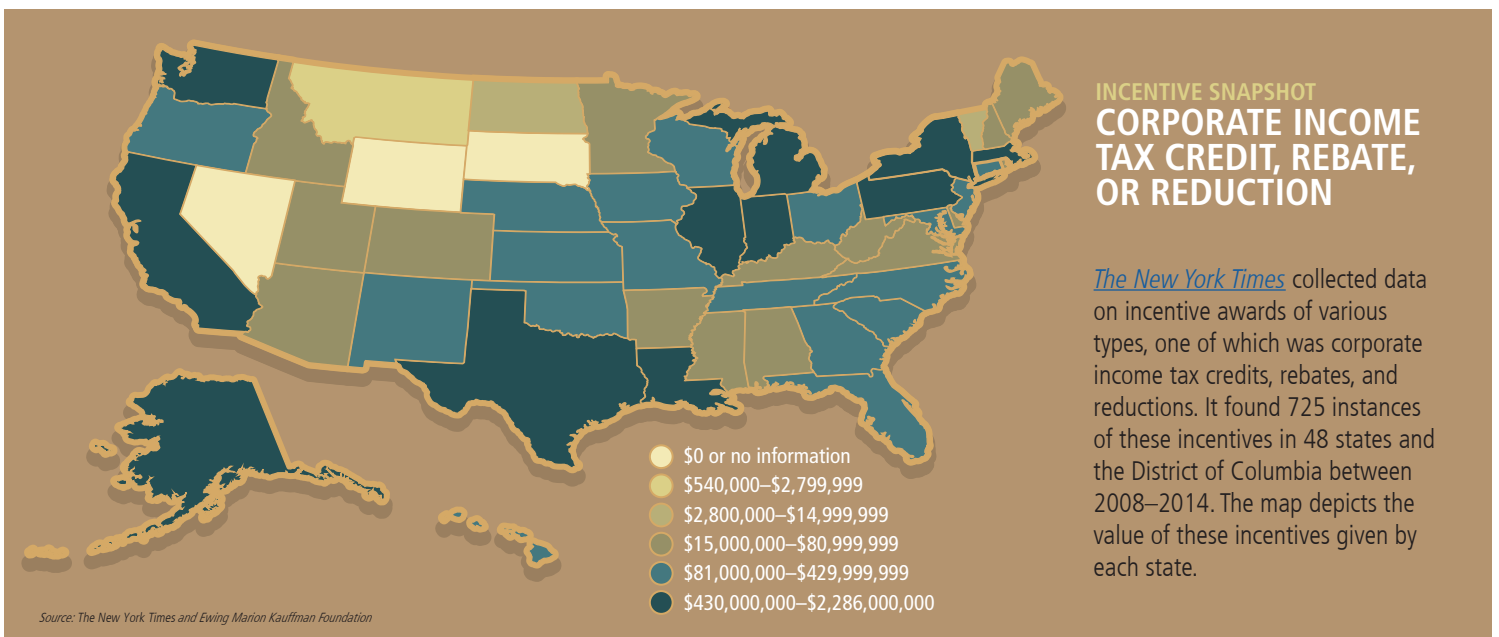
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A COSTLY CROSS-BORDER SHUFFLE

A Hall Family Foundation analysis of incentives given by Kansas and Missouri found that the states spent a combined \$217 million in forgone taxes to lure companies from one side of the state line to the other. The shuffling of jobs between two Kansas counties and one Missouri county resulted in a net gain of only 414 jobs to Kansas at an estimated price of \$340,000 per job.

EVIDENCE OF SUCCESS IN MICHIGAN

Public support of Michigan technology startups through a competitive state R&D loan program [positively impacted recipient firms](#), including by making it more likely these young firms would survive. While state support did not seem to have an effect on patent productivity, public funding did stimulate financing from additional sources.



KNOW YOUR INCENTIVES

State and local governments may not abandon tax incentives entirely, but program administration and design can be made more effective.

- [Require reporting](#) as a condition of receiving tax incentives to better understand the incentive's impact.
- Collect information on companies that [did not receive an incentive](#) but were considered so evaluators have a group with which to compare the effects of incentives.
- Make information about incentive programs available to researchers through [public records requests](#).
- Give tax incentives an [expiration date](#) or assign a legislative committee responsibility to regularly review them.
- When evaluating incentives, consider whether other policy options may have been more [cost-effective](#).

CREATE, NOT RELOCATE

For states, cities, and counties reconsidering the use of tax incentives, alternatives exist that would help foster entrepreneurship as well as a dynamic market that generates jobs and innovations.

REEXAMINE PROFESSIONAL & OCCUPATIONAL LICENSING

- [Nearly one-third](#) of American workers are required to have a license to do their job. Occupational licensing acts as a barrier to entrepreneurs seeking to bring new innovations and business models to market. Revisit requirements for licensing and explore certification as an alternative to spur entrepreneurial competition and new business creation.

WELCOME IMMIGRANTS

- Immigrants were significantly more likely than native-born Americans to start businesses in [2013](#). Create a welcome atmosphere for all immigrants and embrace ethnic diversity to attract job-creating immigrant entrepreneurs.

CULTIVATE HUMAN CAPITAL

- Higher levels of education are associated with increased entrepreneurial activity. An [analysis](#) of 356 U.S. metropolitan areas found that high school and college completion is important to startup rates.
- College graduates with degrees in diverse disciplines, including the arts, are likely to contribute to the creation and growth of new businesses.

CONNECT ENTREPRENEURS WITH RESOURCES

- Entrepreneurs operate largely at the [local level](#), and regions are strengthened when entrepreneurs connect with one another. Programs created to help entrepreneurs should facilitate network formation, peer learning, and mentorships.
- Different types of entrepreneurs require different resources and cannot all be served by a one-stop shop. Policymakers should consider gaps in the local ecosystem and ways in which different programs can be connected to each other.

FOR MORE INFORMATION

Click on the links for access to the following resources, or contact Jason Wiens at jwiens@kauffman.org:

- Read [Evaluating Firm-Specific Location Incentives: An Application to the Kansas PEAK Program](#)
- Watch presentations from the Kauffman Foundation's [Incentives to Innovate: State Policies to Jumpstart Innovation conference](#)
- Read [Young Companies are the Job Creators](#)
- Read the Kauffman Foundation's [Startup Act for the States](#)
- Visit the Pew Charitable Trusts' [Economic Development Tax Incentives Project](#)
- Visit [GoodJobsFirst.org](#)

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