Effects of big business subsidies on local economies

Business

Julian Diaz Eco 212 Tax breaks Big Business Subsidies Across the nation corporations have realized that they hold the fundamental building block to the growth of their revenues, and economic growth of small economies. Claiming that merely their presence are the key to fixing local economies. Politicians are willing to funnel, in some cases, millions of dollars from taxpayers pockets and into the wallets of corporations to set up shop in their town. Corporations with capital and willingness to invest are waiting around for the highest bidder, our bidders being the local governments attempting to find a way to a better local economy .

These techniques are essentially paying the corporation to set up shop in their local economies. Local governments need to realized that big business as effective as it is in creating new jobs in the short run and stimulating the economy on a macroeconomic scale, are not benefiting the local economy in the long run and some cases short run. In order to truly understand the whys and wherefores for big business’ to not receive local government subsidies, a look into the negative effects of these business on the local economies, and how these subsidies should be allocated to maximize the positive growth of a local town are essential.

The use of tax incentives to lure in big business may seem appealing at first but there are both short and long run negative effects, allowing these tax incentives to continue is not benefiting the economy just the large corporations who do not reallocate these resources into the local economy, and what do local governments and economies really see as a result of these tax subsidies. “ Traditional economic development approaches have focused on trying to fill the bath tub while neglecting to plug the drain.

An increasing number of communities are now seeking ways to “ plug the drain” and limit the dollars that leak out of their local economy” 1 Corporations are misleading government officials with ideas centered around the creation of jobs and economic growth, what they happened to leave out during negotiations are the negative effects that big retailers have on the local economy. The past success of our nation’s economy has been driven by the ability to have free competition among business, a free market allows for the allocation of labor, and prices based upon demand.

Major national retail chains and small businesses do share the need to consume in order to operate. However, the economic impact of small business to a local economy triumph that of the national chain stores. A study performed by the Maine Center for Economic Development consumption of small business benefit the local economy compared for every 100 dollars spent by a business how it impacted the local economy. “ MECEP’s analysis found that in general every $100 spent at locally owned businesses generates an additional $58 in local impact. By comparison, $100 spent at a representative national chain store generates $33 in local impact.

Stated differently, MECEP found thatmoneyspent at local businesses generates as much as a 76% greater return to the local economy than money spent at national chains. ” This data was collected from 350 small business in the Portland area. The reason for such a higher effect being produced from the small business is derived from the fact that the goods they purchase are from other locally owned business. Government officials who feel that luring in these big businesses with tax incentives will benefit the economy need to find a way to improve local businesses first and “ plug” the drain.

Let’s assume that our local economy is like a city’s economy, if they allowed a major corporation to step in and open up shop, and increase sales revenue by 50 % wouldn’t that sound great. Add in the creation of new jobs for this economy, even better. However, where are the revenues from this increased sales going? They are not benefiting the government or local citizens because those sales taxes will at best be the break even cost of luring the big business with tax incentive.

Once a major store opens like Wal-Mart there is are diminishing incentives to open up other location anywhere near original location as to not over infiltrate the market and split revenues while doubling operating costs. So now, where is this money that is being made going? Sure, some of it is being reintroduced into our economy through wages, however wages make up such a minute percentage of their revenues. Money is flowing out of the local economy and directed to be invested elsewhere, leaving the government breaking even small business losing revenue from decreased sales and lower product prices.

A small study performed in salt lake city analyzed “ Fifteen retailers and seven restaurateurs, all independent and locally-owned, participated in the local survey. Collectively, these retailers return a total of 52. 0% of all revenue to the local economy while these restaurateurs return 78. 6%”. The study although analyzed on a small scale did show that national chains and big business drive money out of the local economy. Some may argue for “ Creative Destruction” arguing that although in the short run Wal-Mart may close out some stores in direct competition that those storefronts will be filled again.

However, with a store like Wal-Mart which offers goods varying from groceries to electronics to lawn and garden, the available markets available to fill those closed out stores cannot make up for the amount of markets which have been driven out of the local economy. How many restaurants, ice cream parlors can a city have before that market infiltrated? Wal-Mart makes up about 1% of all retail employment in the country. There is no doubt that they contribute to overall employment in the country, however the effects of Wal-Mart openings to local governments are far from beneficial.

A study performed at the institute for the study of labor found that " because Wal-Mart stores employ an average of 360 workers, this suggests that for every new retail job created by Wal-Mart, 1. 4 jobs are lost as existing businesses downsize or close. " The researcher took all biases into account including labor growth rate before Wal-Mart arrived. When Wal-Mart opens a new location they force small business in the closer area to have to down size reducing their workers, lower prices, and cutting back on possible investments. So for every job created by Wal-Mart 1. are lost that small business could have provided. The 1. 4 jobs would be how many jobs would have been available if Wal-Mart did not open up shop. Allowing government officials to give subsidies to these large business is an obscured vision of a positive future. Small business make up a large portion of sales revenues and impact the local economy stronger than Wal-Mart. The use of Tax subsidies to help encourage economic growth has been seen to stimulate short run economies; however the long run effects of these subsidies are far different.

Currently in the region of St. Louis 5. 8 billion dollars have already been committed to economic development incentive programs. These programs offer subsidies to big businesses and chain stores to come in and help induce economic growth. The regional effects of these tax incentives resulted in an 17 year p an annual growth of employment of only . 8 percent from 1990-2000, however 2000-2007 only saw a . 2 percent growth in jobs, the loss in growth was due to the new introduction of tax incentives targeted towards reeling in big business.

This introduction of retail chain subsidies shifted the placement of workers, losing 35, 000 workers in the manufacturing industry and creating 200, 000 jobs in the service industry. The average goods producing worker makes 55, 000 dollars a year however the average service worker only makes 40, 000 so this created significant decrease in the wages of the workers. A report compiled by the East West Government council stated: “ One of the intendedgoalsof the use of tax incentives at the municipal level is to increase taxable sales or sales tax revenues.

Due to the substantial investment in retail development in the region, an increase in taxable sales would be expected, but the regional total taxable sales increased only moderately from 1993 to 2000 and remained relatively flat through 2007” Some may argue that the effects of the tax subsidies will be able to create enough big business support by creating more jobs across the area and that the crowding out effect would allow there to be more jobs than there was before. In a good amount of cases we did see this.

Studies showed that some areas the big business were able to create jobs for those who lost them in small business. Although they were able to cover the amount of jobs, this did not benefit the economy by closing out competition, offering lower paying jobs, finding more loopholes to not pay taxes, this does not benefit the area's economy. When is it enough? Have we forgotten about Detroit and Pennsylvania. There will come a time when government subsides will have allowed the market to be infiltrated by big business and rule out small business. In Detroit for xample a city where a significantly large portion of workers, were employed in the automobile industry, when they industry left there was no backbone for the economy to support itself. All Detroit ever knew was big business manufacturing, without those large manufactures keeping jobs the economy will be in the whole. Imagine a stock portfolio would you invest all your money into one asset, when the number one rule is to diversify to limit the risk of a huge downfall? Local governments need to fix struggling economies from the inside out, not inversely.

By allowing small businesses to receive tax incentives further growing the money spent locally as a result of small business buying operating goods from one another, by not subsidizing big businesses governments can insure a larger effect of economic growth by reducing the economic leakage which is occurring in so many regions, and lastly we can see real larger marginal returns on tax subsidies, the amount that is spent on big business subsidies is largely inflated from governments bidding for the big business to come to them, could be spent on growing inside out.

The effects of local governments subsidizing big business to induce economic growth are misleading and unproductive to the overall long-term growth of an economy. --

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