Corporate Social Irresponsibility

After ESG, activist investors should side with taxpayers

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Contents

1 Executive summary

1 The trouble with subsidies

3 Economics and cronyism

4 ESG activism, so far

5 Difficulties implementing ESG

7 Why subsidies flop

7 Subsidies are wasteful

8 Unseen costs of subsidies

9 Corporate and public distortions

9 Lessons from the Ferguson riots

10 Subsidies are expensive

12 Subsidies barely budge corporate behavior

13 Big companies, little leverage

14 No Amazon island

15 Cronyism is un-American

16 Subsidies breed corruption

17 Oversight is not enough

18 Pumping the brakes in Georgia

19 A revolving door in Michigan

20 No fear of FOIA

20 Subsidies offered in secret

21 Audits are no silver bullet

23 Responsible investing vs. corporate welfare

23 Reasons to shun subsidies

24 Foreign Corrupt Practices Act lessons

25 How to change corporate governance

26 Responsible investing activism can help

27 Unlikely allies, nonpartisan solutions

28 Conclusion

28 About the authors

Executive summary

State and municipal governments across America are engaged in a massive transfer of public resources to private corporate interests in the name of economic development. However, the evidence is clear that these corporate subsidy programs operate more for the benefit of the cronies who control them than for any measurable public interest.

Despite their claims of job creation and economic growth, the truth is that these programs do not generally deliver on their promises either to the taxpayers who fund them or the communities they are supposed to benefit. This is an economically uncontroversial reality backed by decades' worth of real-world data, a compelling research-based consensus among economists and other experts, and the simple evidence of our own eyes as we look around at communities still waiting for the jobs and prosperity that they were promised years or even decades ago.

At the same time, the role of corporations in the modern world is at a pivot point. For the past several years, advocates of environmental, social, and governance (ESG) investing have promoted topics like climate change activism and diversity, equity, and inclusion (DEI) initiatives. Those topics have become increasingly toxic with policymakers, the corporate world, and the voting public. The effort to inject progressive-left political goals into the world of finance and investing has created a backlash that has alienated many brands and firms from their customer base.

The original virtuous impulse behind ESG investing, however – that American companies can and should operate in a transparent and ethical manner – remains. This leaves corporate managers and investors with an opportunity. Rather than doubling down on the divisive and increasingly discredited approach of current ESG practice, they can pivot to an emphasis on first doing no harm economically and protecting the welfare of American taxpayers.

Greater awareness of corporate welfare creates an opportunity to disrupt the status quo, drive meaningful reforms, and make a very real difference in communities across America. That's why ESG investors, ratings agencies, and other stakeholders should focus their efforts on corporate welfare as much – or more – than they do any other violation of ESG principles. Companies that are draining resources from communities and delivering few benefits in return are violating any meaningful definition of corporate social responsibility. Government officials who are facilitating this type of behavior for personal gain should also be called out and held accountable.

In joining the fight against corporate welfare, the responsible investing movement could not only find new opportunities for doing good and advancing its stated principles but also have an opportunity to work in an environment largely devoid of partisan political entanglements and populated by unexpected allies.

The potential returns on that investment, both financial and societal, are enormous.

The trouble with subsidies

State and municipal government economic development agencies around the country routinely offer targeted economic development subsidies to selected corporate recipients. These subsidies come in many forms, but all share the characteristic of singling out particular companies and facilities to receive specific benefits from the government that are separate from the jurisdiction's generally applicable tax, zoning, permitting, and other rules.

Common forms of targeted economic development subsidies include direct financial grants; tax exemptions or abatements; exemptions from zoning, land use, environmental review, and other regulatory standards; the use of governments' eminent domain powers to force the acquisition of private property from unwilling sellers; government-funded "site preparation;" low-interest-rate loans; the construction of dedicated infrastructure at public expense; artificially low utility rates; and dedicated government-funded job training programs.

Government officials and business owners argue that these subsidy deals are necessary to create or retain local jobs and create broader economic prosperity. However, claims of their net economic benefits have been disproven by decades of academic research. These deals are better understood as unethical instances of cronyism – that is, political corruption among friends.

Fortunately, there is a natural corrective to corrupt bargains between government and officials and commercial interests. The United States has a long history of debate and activism over corporate America and its reputation as a beneficial force in society. That debate has, at various times, been advanced under headings such as business ethics, corporate social responsibility, socially responsible investing, and, more recently, environmental, social, and governance (ESG) theory. Many well-meaning critics of corporate America have used these ideas to push back on what they see as abuses of power by large and influential business interests.

Unfortunately, the most popular current form of responsible business activism, ESG, has run into significant problems. Advocates' efforts have increasingly come to be seen as poorly defined, self-serving, and anti-democratic.[1] Corporate commitments in the areas of climate change and workforce diversity, for example – once the most popular of the topics under the ESG umbrella – have been rolling back significantly over the last year.[2] Many attentive observers of this world have already declared that ESG is dead, dying, or at the very least, in significant decline.[3] In order to counter the problem of corporations soaking taxpayers with corrupt development deals, we're going to need something more reliable, robust, and democratically popular than the ESG framework that now appears close to collapse.

This new effort presents a unique opportunity to reform government policy, clarify the mission of responsible business practice, and protect the interests of American workers and taxpayers. A solution will require action on the part of state and local policymakers, corporate executives, and private sector policy advocates. We need a movement for responsible business and investing that focuses on taxpayer protection.

First, government officials should refuse to offer targeted incentive packages to particular firms or industries and instead craft policies that are open to all applicants. Economic development policies should be creating the best possible environment for investment, competition, and innovation rather than handing out special favors. Second, CEOs and corporate boards should adopt affirmative policies of refusing to seek or accept special deals and privileges. Finally, non-profit advocates should monitor these actions and hold both politicians and corporate actors accountable for their actions.

This focus will reorient firms toward first doing no harm to local communities by refusing to participate in deals that distort the tax burden and undermine local competitors. Firms certainly may continue to participate in other efforts that would be considered ESG aligned, but whatever environmental, social, and governance initiatives they choose to adopt should only be implemented on top of a promise not to seek and accept government-granted privileges that are not granted to all similarly situated firms.

This emphasis will also orient more scrutiny in the direction of elected and appointed policymakers who are frequently the forgotten players in the corrupt game of cronyism. Because the financial benefit to corporations is more obvious, corporate officials are more likely to bear the brunt of criticism and negative media coverage when public opinion sours on any particular deal. But no deals would be possible without the active participation of government officials loosening the taxpayer purse strings. A corporate leader can lobby for years for special treatment and receive nothing, but a motivated government official can often create a special policy preference on their own authority. An army of even the most rapacious capitalists would be powerless without their enabling political counterparts. With greater power should come greater responsibility – and greater scrutiny.

Finally, policy advocates in the private sector also have a vital role in supporting an economy free not just of red tape and restraints on trade, but of policies that actively undermine the market economy with illegitimate privilege. For people in favor of free market, conservative, classical liberal, fusionist, or

1 Richard J. Shinder, "The Well-Meaning Wealthy and Illiberalism," *City Journal*, August 8, 2023, https://www.city-journal.org/article/esg-dei-and-other-forms-of-well-meaning-illiberalism.

2 Kasey Vosburg and Hortense Bioy, "DEI Rollbacks: Impact on ESG Risk Ratings and Broader Implications for Investors," Sustainalytics, March 19, 2025, https://www.sustainalytics.com/esg-research/resource/investors-esg-blog/dei-rollbacks-impact-on-esg-risk-ratings-broader-implications-investors. For climate-themed retreats, see Nicolás Rivero, "Wall Street firms are ditching climate coalitions. Do they matter?," *Washington Post*, January 11, 2025, https://www.washingtonpost.com/climate-environment/2025/01/11/blackrock-net-zero-coalition/.

3 Russ Greene, "Is ESG Already Over?," *Reason*, February 2024, https://reason.com/2024/01/14/is-esg-already-over/. Richard Morrison, "Time to End the ESG Shakedown," *National Review*, January 16, 2025, https://www.nationalreview.com/2025/01/time-to-end-the-esg-shakedown/.

libertarian economic policy, seeking more operating freedom for business is only part of the mission. Protecting Americans – as workers, small business owners, and taxpayers – from the depredations of big business and big government collusion is also vital.[4] Moreover, even policy advocates from a progressive or other left-aligned perspective should support restraining corporate power from colluding with government authority.

This mission is closely aligned with both US political history and contemporary public opinion. Many Americans are already suspicious about the appearance of corruption and would be receptive to an effort to fight it. In 2014, for example, Rasmussen Reports found that only about a third of Americans believed that the United States economy was "a system of free market capitalism," with roughly the same amount believing that it was "a system of crony capitalism."[5] Positive views of capitalism among the American public have been in decline for several years – those expressing a positive view dropped eight percentage points between 2019 and 2022, well past the Great Recession era when its popularity also dipped for understandable reasons.[6] Similarly, public approval of state and local governments has also been in decline. Favorable impressions of state government declined nine points between 2019 and 2023, and approval of local governments is down eight points over the same time span.[7]

Reversing these trends makes for good politics as well as good policy.

Economics and cronyism

Every year, state and local governments across America engage in massive wealth transfers to selected corporations in the name of economic development. Academic research and real-world evidence make it clear that these programs are ineffective at best. At times, they are deeply harmful to the very communities and stakeholders they are supposed to help.

To understand the argument against targeted subsidies, readers should familiarize themselves with a few terms that are common among economists and public policy analysts, but which may be new to the non-expert reader.

Rents*:* Most people are familiar with rent being the payment that many people make each month to a landlord, but most economists use a definition that is both broader and more technical. In the economic sense, a rent is any payment to an owner of a factor of production in excess of the costs needed to bring that factor into production. While this sort of rent is sometimes referred to as being "unearned," in a competitive market economy, all participants can potentially capture the value of such non-labor-based advantages. In that sense, such profits are as ethical as the buying and selling of any scarce resources, as long as competition is not artificially constrained.

For the purposes of this study, however, we are going to refer to the *artificial* rents created by government policy. When government bodies enact policies that raise the value of someone's assets or business without them doing any additional work or providing anyone with any additional value, that is also a rent. And because such policies cause worse outcomes for the non-favored parties, they are unethical.

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4 Michael Munger and Mario Villarreal-Diaz, for example, argue that the incentive structure of a democratic political system with a market economy (like the United States) inevitably encourages cronyism, writing "The road to cronyism leads directly through capitalism." They argue that it is the responsibility of those who would defend such a system is "to empower entrepreneurs not to want to become rent seekers and to constrain state actors not to sell off rents in the first place." See Michael Munger and Mario Villarreal-Diaz, "The Road to Crony Capitalism," *The Independent Review*, v. 23, n. 3, Winter 2019, pp. 331–344, https://www.independent.org/pdf/tir/tir_23_3_02_munger.pdf. See also Michael Munger, "A 'Good' Industrial Policy is Impossible: With an Application to AB5 and Contractors," *Journal of Law, Economics, and Policy*, Vol. 17, No. 3, September 2022, Law & Economics Center at George Mason University Scalia Law School Research Paper Series No. 22-007, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3950782.

5 Rasmussen Reports, "Politics: 31% Believe U.S. Has Crony Capitalist System," April 9, 2014, https://www.rasmussenreports.com/public_content/politics/general_politics/april_2014/31_believe_u_s_has_crony_capitalist_system.

6 "Modest Declines in Positive Views of 'Socialism' and 'Capitalism' in U.S.," Pew Research Center, September, 2022, https://www.pewresearch.org/politics/2022/09/19/modest-declines-in-positive-views-of-socialism-and-capitalism-in-u-s/. For attitudes in the aftermath of the Great Recession see "'Socialism' Not So Negative, 'Capitalism' Not So Positive," Pew Research Center, May 4, 2010, https://www.pewresearch.org/politics/2010/05/04/socialism-not-so-negative-capitalism-not-so-positive/.

7 Joseph Copeland, "Americans rate their federal, state and local governments less positively than a few years ago," Pew Research Center, April 11, 2024, https://www.pewresearch.org/short-reads/2024/04/11/americans-rate-their-federal-state-and-local-governments-less-positively-than-a-few-years-ago/.

Rent-seeking*:* The related behavior by which private parties attempt to use government privileges to procure and maintain unethical rents. Popularized by economists Gordon Tullock and Anne Krueger, the term rent-seeking includes behaviors like obtaining a tax abatement for yourself, a tariff against your competitors, a monopoly for your particular product, or the adoption of a seemingly neutral policy that is intended to benefit a particular business.[8]

Cronyism*:* Similar to our definition of unethical rents, cronyism refers to favoritism, privileges, and special interests. For two or more people to be cronies implies a close, often secret, friendship that is centered around the acquisition of corrupt favors, with benefits flowing between the cronies but accruing to the overall disadvantage of citizens, customers, or taxpayers in general.[9] Cronyism also refers to a political system in which corruption is common and political favoritism for private profit is a common (though often still technically illegal) occurrence.

Corporatism*:* A form of economic policymaking in which the government manages not just law enforcement and the provision of public services but sets economic and societal goals to which institutions and individuals are expected to conform. In particular, corporatism describes a unified effort of large industrial organizations (such as corporations and labor unions) and the central government to collaborate in planning economic development. First rising to popularity in the US and Europe between the First and Second World Wars, in modern political terms it is generally referred to as industrial policy or simply national economic planning.[10] Though most frequently seen at the national level, the same dynamic by which governmental institutions collaborate with large corporations to plan economic affairs can be seen at the state and local levels as well.

ESG activism, so far

While it is sometimes presented as a new way of evaluating and guiding corporate conduct, environmental, social, and governance (ESG) theory is better understood as the latest iteration in a long series of related concepts, such as corporate social responsibility, socially responsible investing, extended stakeholder management, the triple bottom line, and "high-road" investing. These similar, overlapping theories are united by a concern for how the conduct of a corporation affects the rest of society, not just shareholders. The central goal of that concern is to keep firms from inflicting externalized costs on constituencies outside the firm while they internalize profits to shareholders.[11]

Some current ESG frameworks go much farther than this and incorporate a range of affirmative duties, but the most essential expectation of responsible investing rules is to not profit at the expense of uncompensated third parties, even when such conduct is legal. This underlying goal of ESG theory is thus entirely consistent with the principled political opposition to cronyism that is such an important part of the American political tradition.

Responsible investing goals like taxpayer protection and anti-cronyism are actually *more* popular than many of the higher-profile ESG topics like greenhouse gas reductions and workforce diversity mandates, which have increasingly become flashpoints of political controversy.[12] If anything, reorienting advocacy for responsible business practices away from ESG theory and toward anti-cronyism and taxpayer protection could help salvage what has become a conceptually confusing mess, while getting corporate America out of the political line of fire by focusing on an area that does not break down along traditional partisan lines.

8 David R. Henderson, "Rent Seeking," The Library of Economics and Liberty, https://www.econlib.org/library/Enc/RentSeeking.html, accessed August 16, 2022.

9 David R. Henderson, "The Economics and History of Cronyism," Mercatus Center, July 26, 2012, https://www.mercatus.org/publications/government-spending/economics-and-history-cronyism.

10 Thomas J. DiLorenzo, "Economic Fascism: Planned Capitalism Lives On," Foundation for Economic Education, June 1, 1994, https://fee.org/articles/economic-fascism/.

11 Richard Morrison, "Environmental, Social, and Governance Theory: Defusing a Major Threat to Shareholder Rights," Competitive Enterprise Institute, *Profiles in Capitalism No. 6*, May 2021, pp. 5-10, 14-27; https://cei.org/studies/environmental-social-and-governance-theory/.

12 Nicquel Terry Ellis and Catherine Thorbecke, "DEI efforts are under siege. Here's what experts say is at stake," CNN, January 11, 2024, https://www.cnn.com/2024/01/07/us/dei-attacks-experts-warn-of-consequences-reaj/index.html. Evan Halper, "Companies made big climate pledges. Now they are balking on delivering," *The Washington Post*, December 3, 2023, https://www.washingtonpost.com/business/2023/12/03/climate-corporate-cop28/. See also Andrew Ramonas, "Nine More States Target SEC Climate Reporting Rules in Court," Bloomberg Law, March 12, 2024, https://news.bloomberglaw.com/esg/nine-more-states-join-republican-lawsuits-over-sec-climate-rules.

Recent ESG activism presents multiple flaws that should make such a pivot welcome to many stakeholders. Many ESG frameworks are both vague in focus and overly complex at the same time.[13] Some, based on the United Nations' Sustainable Development Goals, include a wide variety of potential good causes for companies to champion, from reducing greenhouse gas emissions and eliminating poverty to promoting education and healthcare in the developing world.[14] Those may all be desirable things, but it has become clear in recent years that attempting to incorporate such a laundry list of utopian goals into the profitable operations of every for-profit firm creates a conceptual challenge for any management team attempting to take such an effort seriously.

The problem is augmented by the universal or holistic nature of most ESG systems.[15] Proponents will generally argue that everything that falls under the heading of ESG is important – and by default, equally important.[16] While some ESG ratings methodologies do prioritize some topics over others depending on the industry in question, firms are still frequently rated on dozens of metrics, with companies expected to hit a certain level of achievement in each to be awarded a high score. This has resulted in such confusing and counterintuitive results as Tesla, the world's leading manufacturer of electric vehicles, being given a lower ESG score than Philip Morris and ExxonMobil, despite tobacco and fossil fuels being the most boycotted products in the world of responsible investing.[17]

Under most ESG frameworks, firms need to consider not just high-profile issues like climate change, but land use, water quality, post-consumer plastic waste, biodiversity, workforce diversity, and the impacts of fracking. The average midsize widget company is expected to have policies on cobalt mining, the textile and apparel supply chain, indigenous property rights, gender identity, and environmental justice issues. This is not a reasonable set of expectations for corporate managers; it is more akin to the undisciplined schedule for a month-long conference on social justice activism.

Difficulties implementing ESG

The raw number of work hours involved with compliance with such a sprawling agenda will likely be very large. We should also consider the splintering of focus and expertise of the managers involved.[18] Expecting every firm to engage on every possible ESG topic (most of which will likely have little to do with the firm's day-to-day operations) will all but guarantee that they will do a poor job of engagement. One of the most basic concepts of modern economics, comparative advantage, suggests that each of us should specialize in what we are best at. That is true of firms as well as individuals. Therefore, if a firm does pursue ESG engagement beyond its profit motive, it should at least specialize in a philanthropic project that is consistent with its underlying business expertise.

Prof. Alex Edmans of the London School of Business has described some examples of corporate philanthropic initiatives that keep this relationship in mind. Coca-Cola depends on having access to safe drinking water to mix with its syrup to make final products that are then offered for sale around the globe. Because shipping already mixed soda is very expensive, it needs to bottle its products locally, meaning that the varying level of water quality around the world is one of the company's most important

13 "Even those businesses who support ESG are finding it difficult to figure out which and how many regulations and standards to follow for sustainability compliance." Hamsavarthani Venkatesan, "Untangling ESG Reporting Rules: The Frustration of EU Firms," *Impakter*, October 24, 2024, https://impakter.com/esg-reporting-challenges-for-eu-companies-solved-by-esg-software/#.

14 Betty Moy Huber, Michael Comstock and Hilary Smith, "UN Sustainable Development Goals—The Leading ESG Framework for Large Companies," *Harvard Law School Forum on Corporate Governance*, October 4, 2018, https://corpgov.law.harvard.edu/2018/10/04/un-sustainable-development-goals-the-leading-esg-framework-for-large-companies/. Paul Bodnar, et al., "Integrating the UN SDGs in investments," BlackRock, July 1, 2021, https://www.blackrock.com/institutions/en-us/insights/investment-actions/integrating-un-sdgs-in-investments.

15 Roger Lowenstein, "The holes in holistic ESG indices," *Financial Times*, June 8, 2022, https://www.ft.com/content/776459b8-e570-4b41-a00e-99a0166655aa.

16 Mainstream ESG frameworks and ratings methodologies cover a wide array of issues and rarely suggest any advantage to firm specialization. The United Nations' Principles for Responsible Investment (PRI), for example, encourages companies to embed ESG considerations throughout their operations, not just focusing on a single pillar like environmental performance. While PRI acknowledges that investors "might give greater weight to some [ESG issues] than others," their framework suggests that a broad range topics are relevant for any responsible investing strategy. See "What is responsible investment?", https://www.unpri.org/introductory-guides-to-responsible-investment/what-is-responsible-investment/4780.article, accessed March 31, 2025. Similarly, ratings from data providers like MSCI and Sustainalytics cover a company's performance on a wide array of topics, meaning that being a laggard in any given area will bring down a firm's overall score, even if many of the topics considered aren't relevant to the firm's specific products and operations.

17 Duncan MacDonald-Korth, "Elon Musk Critical of ESG," Finsum, June 19, 2023, https://www.nasdaq.com/articles/elon-musk-critical-of-esg.

18 Aaron Ross Sorkin, et al., "Why Some Executives Wish E.S.G. 'Just Goes Away,'" *The New York Times*, January 19, 2023, https://www.nytimes.com/2023/01/19/business/dealbook/esg-business-davos.html. The *Times* reported that "The environmental, social and corporate governance investment trend is booming, but it has also become a big distraction for business leaders."

concerns. Its expertise in this vital part of its business is a natural fit for the Replenish Africa Initiative (RAIN), through which the company has invested tens of millions of dollars in drinking water access for Africans. [19]

The drug company Merck provides another case study. Merck funded the development of the drug ivermectin, a treatment for river blindness, despite initial poor forecasts for cost recovery. This disease is virtually unknown in the developed world but was previously endemic in many of the poorest and least developed nations. Despite the lack of market demand that could be expected to repay its development costs, the company produced and distributed the drug out of its own coffers for philanthropic purposes and reaped significant reputational benefits for doing so.[20]

If these firms had been following the demands of a universal ESG framework, however, Coca-Cola could have ended up with a program on training textile workers in Bangladesh and Merck could have been saddled with a project on minimizing methane leaks in aging industrial facilities. Because they focused their energies on areas in which they were already experts, however, they were able to accomplish much more.

The goal of specialization works in both directions. Many activist groups over the last half century have attempted to influence the conduct of individual corporations, specific industries, and corporate America in general by drawing attention to conduct they believe is inconsistent with responsible business practices. This has consisted of both praise for the ostensibly most responsible (such as the Human Rights Campaign's "Best Place to Work for LGBTQ+ Equality" list[21]) and a "name and shame" strategy for the allegedly least responsible (the "Private Equity's Dirty Dozen" report[22]). Management research suggests that such advocacy campaigns have had a significant influence on corporate conduct.[23] Being named to a best/worst list can affect a firm's public perception, attractiveness to investors, attractiveness to potential employees, vulnerability to takeovers, and vulnerability to political predation.[24]

Advocacy campaigns can be applied to conduct that is simply undesirable to the activists in question, or which is illegal but not being adequately policed. Some activist campaigns agitate for corporations to voluntarily change their own internal policies, while others are created to engage the attention of policymakers and law enforcement officials, who are urged to exert stricter governmental scrutiny of the corporate conduct in question. While corporate behavior is often influenced by both political authorities and activists, direct market pressure from customers and industry colleagues also plays an important role.

The success of any of these strategies depends on having specific goals, specific demands, and a way to measure outcomes. Because it covers so many topics and because there is no agreed upon definition of the term, urging a company to be more ESG-aligned is a poor fit for goal-oriented activism. If anything, corporate claims to be ESG (or sustainability) focused have generated a chorus of allegations of various forms of washing – greenwashing for environmental virtue, pinkwashing for support of women, rainbow washing for tolerance of the gay and lesbian community, and so on – by which activists argue that firms are using the rhetoric of ESG to pretend to virtues that they don't have any real claim to.[25]

In contrast, anti-subsidy ESG goals are popular with voters and consumers, are simple for corporations to define, and are easily measurable. This sets these goals apart and makes them superior to current activism in the world of ESG investing.

[19] Alex Edmans, *Grow the Pie: How Great Companies Deliver Both Purpose and Profit* (Cambridge: Cambridge University Press, 2020) pp. 22-25.

[20] Edmans, *Grow the Pie: How Great Companies Deliver Both Purpose and Profit,* pp. 68-69.

[21] "Best Places to Work for LGBTQ+ Equality 2022," Human Rights Campaign, https://www.hrc.org/resources/best-places-to-work-for-lgbtq-equality-2022, accessed August 9, 2022.

[22] Derek Seidman, et al., "Private Equity's Dirty Dozen: 12 Firms Dripping In Oil And The Wealthy Executives Who Run Them," Private Equity Stakeholder Project, February 2022, https://pestakeholder.org/wp-content/uploads/2022/02/PESP_LS_PrivateEquityDirtyDozen_Feb2022-Final.pdf.

[23] Maike A. Diepeveen, "How Advocacy Nonprofits Interact With and Impact Business: Introducing a Strategic Confrontation and Collaboration Interaction Model (SCCIM)," *Nonprofit and Voluntary Sector Quarterly,* October 23, 2023, https://journals.sagepub.com/doi/10.1177/08997640231203629.

[24] "...if companies experience anti-corporate campaigns or suffer from other similar revelations of unethical business practices, this information can have significant lasting damage to their market capitalisation and financial performance." George Bridgewater, "Corporate Campaigns: determining the scale of the ask," *Effective Altruism Forum,* October 11, 2022, https://forum.effectivealtruism.org/posts/YfTwdCgmvfuybXwYT/corporate-campaigns-determining-the-scale-of-the-ask.

[25] Tim Quinson, "Greenwashing Is Increasingly Making ESG Moot," Bloomberg News, March 16, 2022, https://www.bloomberg.com/news/articles/2022-03-16/greenwashing-is-increasingly-making-esg-investing-moot-green-insight.

Moreover, protecting citizens and taxpayers from cronyism is a higher-value goal than most because of the potent power of government and private collusion to extract illegitimate rents by force of law. Many of the ostensibly negative policies and behaviors that ESG activists criticize firms for are unilateral decisions of individual CEOs that are easily reversible and subject to competitive pressures from other firms. But when state legislatures, executive officers of the state, or their delegated representatives make deals with corporations, they act with sovereign immunity and often appropriate taxpayer funds. Moreover, the details of such deals are often kept secret, subject to non-disclosure agreements with the recipient firms.[26] If businesses with bad social and environmental policies should be named and shamed for spending their own resources in suboptimal ways, firms that accept corrupt handouts from state and local governments should be doubly subject to scrutiny and critique.

Why subsidies flop

Governments operate economic development subsidy programs for a stated purpose that would be wholly consistent with ESG principles – if they actually worked. The justification for public resources being transferred to private companies is that doing so will deliver more net benefits to the local community in terms of economic prosperity than would otherwise exist. By accepting subsidies, companies are inherently saying that they are working toward both private profit and the public good.

However, decades' worth of real-world evidence makes it clear that economic development programs do not, in general, deliver on these promises. Quite simply, if it were possible for state or municipal government officials to purchase economic prosperity with taxpayer-funded subsidies, then every city, county, region, and province in the world would have long since done so.[27]

As prominent urbanist Richard Florida of the University of Toronto has explained, economic development subsidy programs fail the simple and fundamental test of whether places that engage in economic development subsidies are any better off than places that do not. In 2012, Florida and his team crunched data collected by *The New York Times* and found "virtually no association between economic development incentives and any measure of economic performance. We found no statistically significant association between economic development incentives per capita and average wages or incomes; none between incentives and college grads or knowledge workers; and none between incentives and the state unemployment rate."[28]

Subsidies are "useless," concluded Florida, who called them a "long-standing waste of state and local resources." He is far from alone among researchers and experts in holding this viewpoint.

Subsidies are wasteful

French economist, philosopher and legislator Frédéric Bastiat's famous 1850 essay "What Is Seen and What Is Not Seen" explains the concept of public policies having both seen and unseen effects, and warns against focusing only on the most readily apparent benefits without accounting for less readily apparent costs:

> *In the economic sphere an act, a habit, an institution, a law produces not only one effect, but a series of effects. Of these effects, the first alone is immediate; it appears simultaneously with its cause; it is seen. The other effects emerge only subsequently; they are not seen; we are fortunate if we foresee them.*
>
> *The entire difference between a bad and a good Economist is apparent here. A bad one relies on the visible effect while the good one takes account both of the effect one can see and of those one must foresee.* [29]

In addition to his academic background, Bastiat had practical experience as an elected member of the

[26] Taylor Barnes, "Utah Refuses to Share Details of Nuclear Weapons Plant Subsidy," *Inkstick*, February 6, 2023, https://inkstickmedia.com/utah-refuses-to-share-details-of-nuclear-weapons-plant-subsidy-3/.

[27] One common joke among economic development reformers is that "If subsidy deals worked, then Kansas City would look like Dubai on the Missouri River," after governments in that region spent years handing out increasingly large subsidy deals in what became known as the "Border War."

[28] Richard Florida, "The Uselessness of Economic Development Incentives," Bloomberg *CityLab*, December 7, 2012, https://www.bloomberg.com/news/articles/2012-12-07/the-uselessness-of-economic-development-incentives.

[29] Frédéric Bastiat, "What Is Seen and What Is Not Seen," *Selected Essays on Political Economy*, accessed September 7, 2023, https://www.econlib.org/library/Bastiat/basEss.html?chapter_num=4#book-reader.

French National Assembly, where he served as the vice president of the legislature's Finance Committee. He spent much of his legislative tenure railing against government agencies that focused only on visible benefits and excluded hidden costs from their calculations, and he would no doubt have found it disheartening to learn that 175 years in the future, American elected officials and economic development agencies would still be making those same mistakes.

America's predominant subsidy-driven economic development policy model is still an exercise in focusing on the seen while ignoring (if not deliberately obscuring) the unseen. Observers see subsidized businesses operating in a community and see subsidized employees at work, and are often convinced that the subsidies were successful at delivering on their stated goals. What is not seen, however, are the actual price tags for those businesses and those jobs, as well as the diffused fiscal and practical costs those subsidies impose on the community.

These are factors that can be quantified. In Michigan, a 2020 review of the state's primary targeted economic development subsidy program by researchers at the Mackinac Center for Public Policy and Ball State University used the National Establishment Time Series database, which is developed from information collected by data analytics provider Dun & Bradstreet, to look at the real-world performance of 1,890 companies that had received targeted economic development subsidies from the state. It compared their performance to similarly situated companies that had not received subsidies.[30] "This is arguably the closest we can get to a controlled experiment when studying the efficacy of state economic development incentives. One group in the study is the treatment group — having been offered incentives — and the other serves as a control group, allowing for comparisons," the authors explained.

The analysis found that subsidized companies did, in fact, create 7.1 percent more jobs and make 9.9 percent more in sales revenues than their unsubsidized analogs. However, these jobs came at an average price to taxpayers of $593,913 per worker, *per year*.

From an ESG perspective, it is hard to argue that, taken as a whole, the subsidized companies in this analysis were being anything but socially irresponsible in their actions. They benefited massively, on average, from their public support, yet generated such an insignificant return that the net result was deeply negative for the state's communities.

Unseen costs of subsidies

The costs associated with targeted economic development subsidy programs also go far beyond dollars and cents. In recent years, researchers have begun to shine a light on previously unseen negative effects of subsidies, uncovering some areas of serious concern to anyone who hopes to advance common ESG principles.

Some issues identified by these researchers include:

- Cities that spend more on subsidies end up spending less on basic public services such as fire and police departments, roads, schools, utilities, public health, and more.[31]
- Subsidy programs focused on attracting large companies and high-profile projects artificially concentrate control of the economy in the hands of big business by displacing small and medium businesses and blocking their potential growth.[32, 33]
- Entrepreneurship suffers in high-subsidy environments. Company start-up rates are lower in counties where subsidies are more prevalent, including in industries where subsidies to large firms are supposed to encourage an ecosystem of economic growth.[34] What entrepreneurship does take place is less likely to be successful and productive.[35]

[30] Michael D. LaFaive et al., "Economic Development? State Handouts and Jobs: A New Look at the Evidence in Michigan," Mackinac Center for Public Policy, 2020, https://www.mackinac.org/archives/2020/s2020-05.pdf.

[31] Wang Jia, 2016. "Do Economic Development Incentives Crowd Out Public Expenditures in U.S. States?" *The B.E. Journal of Economic Analysis & Policy,* vol. 16(1), pages 513-538, January. https://ideas.repec.org/a/bpj/bejeap/v16y2016i1p513-538n12.html.

[32] William F. Fox and Matthew N. Murray. "Do Economic Effects Justify the Use of Fiscal Incentives?" *Southern Economic Journal* 71, no. 1 (2004): 78–92, https://doi.org/10.2307/4135311.

[33] Meg Tuszynski and Dean Stansel, "Targeted State Economic Development Incentives and Entrepreneurship," July 11, 2018. *Journal of Entrepreneurship and Public Policy,* https://ssrn.com/abstract=3212411.

[34] Mark D. Partridge, et al., "The Effects of State and Local Economic Incentives on Business Start-Ups in the U.S.: County-Level Evidence," March 2019, Andrew Young School of Policy Studies Research Paper Series No. 19-02, http://dx.doi.org/10.2139/ssrn.3376166.

[35] Dove, J.A. "Economic Development Incentives: Fostering Productive or Unproductive Entrepreneurship?" In: John, A., Thomas, D.W. (eds) *Entrepreneurship and the Market Process. Mercatus Studies in Political and Social Economy.* https://doi.org/10.1007/978-3-030-42408-4_7

- One common subsidy mechanism, Tax Increment Financing (TIF), makes communities grow more slowly than they would otherwise,[36] shifts public education funding responsibilities from local to state taxpayers[37] and takes credit for growth that would have happened regardless.[38]
- Innovation suffers in a top-down, subsidized environment. Technological innovation in a region, measured by patent filings, falls as subsidies grow.[39, 40]
- Subsidies harm the overall fiscal health of states that engage in them.[41]
- High-subsidy states are much more likely than low-subsidy states to score poorly on common rankings of economic freedom.[42]

Corporate and public distortions

The existence of incentive programs normalizes not just the practice of local government economic planning but also the increasing blurring of the lines between business and government interests. When government tax abatements are seen as the smart and reasonable way to do business, it encourages policymakers in that state to expand their efforts and planners in other states to adopt the same strategy. This leads to a policy of competing programs eroding the tax base of incentive-offering municipalities, potentially undermining the provision of public services and quality of life for residents.[43]

Some ESG proponents have criticized low corporate tax rates *per se* as inherently unjust, calling for policies like a global minimum tax on businesses.[44] But from a practical perspective, lower commonly applicable tax rates can produce more tax revenue than higher rates, which tend to reduce economic growth. Furthermore, low rates offer an important competitive tool between jurisdictions that doesn't involve extending privileges to particular companies or industries. Thus, critics would be better served by opposing the erosion of the business tax base through crony carveouts and waivers rather than focusing on tax rates themselves. The normalization of picking economic winners and losers has deteriorated civic and business governance in exactly the fashion that ESG proponents generally oppose.

The supposed economic boost from state tax breaks is often akin to a short-term sugar rush instead of a healthy, long-term diet. These tax abatements and credits are heavily tilted toward new firms entering a state, leaving existing businesses to shoulder higher long-term rates to finance the foregone revenue.

This subsidy competition is disadvantageous to firms that have long operated in the state and may even deter new firms that plan to grow operations and operate into the future. A firm that gets a big tax discount in its first year but faces significantly higher business taxes for the next several decades might not find that first-year incentive so attractive.[45] This negative long-term outlook thus requires policymakers to create front-loaded incentive packages that are even more generous to counteract it, creating a vicious cycle.

Lessons from the Ferguson riots

Perhaps the most vivid example of the way targeted economic development subsidies can generate outcomes that are antithetical to ESG principles is the story of Ferguson, Missouri and how the fiscal

36 Richard F. Dye, David F. Merriman, "The Effects of Tax Increment Financing on Economic Development," *Journal of Urban Economics*, 2000, https://doi.org/10.1006/juec.1999.2149.

37 Weber, R. "Equity and Entrepreneurialism: The Impact of Tax Increment Financing on School Finance," *Urban Affairs Review*, 2003, https://doi.org/10.1177/1078087403038005001.

38 Hicks, MJ, Faulk, D, Devaraj, S. "Tax increment financing: Capturing or creating growth?" *Growth and Change*. 2019, https://doi.org/10.1111/grow.12296.

39 Tuszynski and Stansel, 2018.

40 The study did not investigate the mechanisms behind this correlation, but one of its authors colloquially described a potential explanation as, "It's cheaper to hire lobbyists than scientists."

41 B.D McDonald III, J.W Decker, and B.A.M. Johnson, "You Don't Always Get What You Want: The Effect of Financial Incentives on State Fiscal Health," *Public Administration Review*, 2021, https://doi.org/10.1111/puar.13163.

42 John A. Dove and Daniel Sutter, "Is There a Tradeoff between Economic Development Incentives and Economic Freedom?" December 6, 2017, http://dx.doi.org/10.2139/ssrn.3169600.

43 Wang Jia, "Do Economic Development Incentives Crowd Out Public Expenditures in U.S. States?" *The B.E. Journal of Economic Analysis & Policy*, vol. 16(1), pages 513-538, January, 2016, https://ideas.repec.org/a/bpj/bejeap/v16y2016i1p513-538n12.html.

44 Andrea Willigie, "Corporate tax isn't working – how can we fix it, globally?" World Economic Forum, June 17, 2021, https://www.weforum.org/agenda/2021/06/g7-corporate-tax-liability-emerging-economies-covid-19/. More recent developments review by Daniel Bunn and Sean Bray, "The Latest on the Global Tax Agreement," Tax Foundation, December 15, 2023, https://taxfoundation.org/blog/global-tax-agreement/.

45 Jared Walczak et al., "Location Matters 2021: The State Tax Costs of Doing Business," Tax Foundation, May 5, 2021, p. 3, https://taxfoundation.org/state-tax-costs-of-doing-business-2021/.

pressures created in part by economic development subsidy programs led to the near destruction of civil society in that city.

Despite imposing the highest property tax rate allowed by the state, Ferguson was facing a fiscal crunch in the early 2010s, driven in part by the accretion over the years of massive subsidy and tax abatement commitments that burdened the city's ability to generate revenue.

The highest-profile corporate subsidy recipient in Ferguson was Fortune 500 firm Emerson Electric, which is headquartered in the city. A 2015 investigation by *The Atlantic* reported that in 2014, the real and personal property on Emerson's 152-acre, seven-building campus was assessed at just $15 million, despite a $50 million data center having been built there in 2009.[46] Ferguson received just $68,000 in annual property taxes from Emerson's operations in the city, *The Atlantic* estimated.

With tax abatements dramatically limiting the tax revenues generated by Emerson and other corporate property owners and with other taxes capped by state law, Ferguson's elected officials turned to another, disastrous revenue source: Their police department and municipal courts. By 2013, $2.57 million of the city's $12.7 million budget came from fines and forfeitures generated by the police and municipal courts.[47]

This management of the justice system for fiscal purposes delivered traumatic results, poisoning the relationship between police and local residents to the point that the August 2014 fatal shooting of Michael Brown by Ferguson police sparked widespread civil unrest and launched the Black Lives Matter movement.

The US Department of Justice's 2015 report on the Ferguson Police Department found that in the pursuit of revenues, the city's leaders had created an environment of policing for profit that turned officers into tax collectors instead of law enforcers:

> *Ferguson's law enforcement practices are shaped by the City's focus on revenue rather than by public safety needs. This emphasis on revenue has compromised the institutional character of Ferguson's police department, contributing to a pattern of unconstitutional policing, and has also shaped its municipal court, leading to procedures that raise due process concerns and inflict unnecessary harm on members of the Ferguson community.*[48]

The DOJ report also noted that the practice was not just limited to the police, but had spread to municipal courts as well:

> *Ferguson has allowed its focus on revenue generation to fundamentally compromise the role of Ferguson's municipal court. The municipal court does not act as a neutral arbiter of the law or a check on unlawful police conduct. Instead, the court primarily uses its judicial authority as the means to compel the payment of fines and fees that advance the City's financial interests.*

Ferguson reduced taxes on Emerson and other local businesses to the point that it was losing money by delivering services to them—funds that had to be made up by the other residents and businesses in the city. That led to a downward spiral of increasingly desperate revenue grabs. Most communities that play the tax abatement and subsidy game won't end up with a situation as bad as Ferguson, Missouri. But the incentives that created that toxic dynamic will always be present.

Subsidies are expensive

While Ferguson may be the place where the consequences of subsidy programs had the most visible and immediate damage to a community, leaders in cities and states across the country are making similar budgetary decisions as subsidy deals continue to increase in size:

[46] Walter Johnson, "Ferguson Hosts a Fortune 500 Firm-so Why Was It Relying on Fines and Fees?" *The Atlantic*, April 27, 2015, https://www.theatlantic.com/politics/archive/2015/04/fergusons-fortune-500-company/390492/.

[47] City of Ferguson, MO, "CITY OF FERGUSON, MISSOURI COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2013," December 5, 2013, https://www.fergusoncity.com/Archive/ViewFile/Item/818.

[48] United States Department of Justice, Civil Rights Division, "Investigation of the Ferguson Police Department," March 4, 2015, https://www.justice.gov/sites/default/files/opa/press-releases/attachments/2015/03/04/ferguson_police_department_report.pdf.

- New York City reported $3.8 billion in revenues lost to tax abatements in 2019.[49] That's more than it budgeted in its financial plan that year to operate both the New York Fire Department ($2.1 billion) and Department of Correction ($1.3 billion), combined.[50]
- A proposed EV battery plant in rural Marshall, Michigan was originally planned to have a subsidy price tag of more than $1.75 billion before market factors rolled back future plans.[51] That figure is more than the state distributed in unemployment benefits in 2021.[52] It's also roughly equivalent to four times the value of homestead property tax credits received by the state's homeowners that year, or more than the state's annual budgetary support for the state's public colleges and universities.[53]
- In fiscal year 2022, the state of Louisiana reported $540 million in tax abatements and $212 million in economic development expenditures for a total state-level price tag of $753 million. By comparison, Louisiana collected $1 billion in corporate income tax that year.[54]
- Between tax abatements and budgeted spending, the total cost of municipal economic development programs in Dallas in 2021 was roughly $130 million.[55] That's almost exactly the same amount ($131 million) that the city budgeted to run its Parks & Recreation and Library departments that year.[56]
- The process of creating the 2025-26 municipal budget for Jacksonville, Florida was complicated by $74.1 million in previous economic development subsidy commitments all coming due at the same time. The mayor asked city department heads to develop plans to cut their budgets by 10 percent, and one city council member noted that the city was budgeting more on subsidies than on its Public Works Department; Parks, Recreation and Community Services Department; and the public library system.[57]

In recent years, many state and local governments have turned to targeted economic development subsidies to promote economic recovery from the COVID-19 pandemic and associated disruptions in economic activity. But as Josh Goodman and John Hamman of the Pew Charitable Trusts pointed out in 2020, the process of creating programs, making subsidy awards, breaking ground and hiring employees can regularly take three to five years.[58] This is consistent with work by researchers at the University of Illinois-Chicago who found no evidence that incentives helped Midwestern municipalities recover from the Great Recession.[59]

This is real money at stake. One tension in national budgeting is traditionally known as guns or butter, a reference to the tension between military and domestic budget priorities. But the estimated $95 billion that state and local governments dedicated to economic development programs in 2019 was enough money at the time to do both, as that amount of money transferred to the federal budget could have not only funded all USDA federal food assistance programs including SNAP, WIC, and the federal School Lunch Program, but also purchased two new Gerald R. Ford-class nuclear aircraft carriers – the largest and most expensive warships in the world – for the US Navy.[60]

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[49] New York City Comptroller, "THE CITY OF NEW YORK NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 and 2019," October, 2020, https://comptroller.nyc.gov/wp-content/uploads/2020/10/5-Notes-to-Financial-Statements-and-Required-Supplementary-Information-2020.pdf.

[50] Scott M. Stringer, "The State of the City's Economy and Finances." New York City Comptroller, December 13, 2019, https://comptroller.nyc.gov/wp-content/uploads/documents/The-State-of-the-Citys-Economy-and-Finances-2019.pdf.

[51] Dave Boucher, Phoebe Wall Howard, and Clara Hendrickson, "Ford to Immediately Pause Work on Massive, Controversial Marshall Project," *Detroit Free Press*, September 26, 2023, https://www.freep.com/story/news/local/2023/09/25/ford-marshall-project/70964122007/.

[52] US Department of Labor Employment & Training Administration, "2021 Calendar Year Data (01/01/2021–12/31/2021)," https://www.dol.gov/sites/dolgov/files/ETA/UIOverpayment/XLS/2021%20-%20Calendar%20Year%20Ending%20Dec%2031.xlsx.

[53] Michigan State Budget Office, "State of Michigan Annual Comprehensive Financial Report - Fiscal Year Ended September 30, 2021," March 18, 2022, https://www.michigan.gov/budget/-/media/Project/Websites/budget/Fiscal/Spending-and-Revenue-Reports/CAFR/ACFR-FY2021.pdf.

[54] Louisiana's license plate calls it a "Sportsmen's Paradise," but in 2022 the state spent more general fund money on economic development subsidies and agencies than it did on outdoor recreation-focused government functions such as "conservation & environment" "culture & tourism" and "agriculture & forestry" combined ($677.9M).

[55] Data for Dallas, Texas during 2021, "Tax Break Tracker," Good Jobs First, accessed April 29, 2025, https://taxbreaktracker.goodjobsfirst.org/?fiscal_year%5B%5D=2021&state%5B%5D=TX&jurisdiction_type%5B%5D=0&state_jurisdiction%5B%5D=TX%2BCity%2Bof%2BDallas&submit=Search.

[56] City of Dallas, "City of Dallas - ANNUAL BUDGET Fiscal Year 2021-22," September 22, 2021, https://dallascityhall.com/departments/budget/financialtransparency/AnnualBudget/2122_00_Adopted-Budget.pdf.

[57] Ric Anderson, "'Cash Incentive Cliff': Bills Coming Due for City of Jacksonville's Past Deals," *Jacksonville Daily Record*, April 4, 2025, https://www.jaxdailyrecord.com/news/2025/apr/04/city-incentive-deal-bills-are-coming-due/.

[58] Josh Goodman and John Hamman, "Why Business Incentives May Not Speed State Economic Recoveries," The Pew Charitable Trusts, May 21, 2020, https://www.pewtrusts.org/en/research-and-analysis/articles/2020/05/21/why-business-incentives-may-not-speed-state-economic-recoveries.

[59] Joshua Drucker, Geon Kim, and Rachel Weber, "Did incentives help municipalities recover from the Great Recession? Evidence from Midwestern cities," *Growth and Change*, 2019; 50: 894–925, https://doi.org/10.1111/grow.12318.

[60] The USDA's FY2018 budget for food assistance programs was $68 billion, while the cost of a Ford-class carrier at the time was generally reported as $12.5 billion.

Subsidies barely budge corporate behavior

In theory, governments provide targeted economic development incentives to corporations to change those companies' decisions, selecting companies that are likely to generate economic activity that will provide a net benefit to the whole community. The up-front costs, tax revenue abatements, debt issuance, infrastructure spending or other costs that governments assume are justified in this model by the expectation that the economic impact of the company's activities in that place will be greater than the costs incurred through the subsidy, generating a net positive return on that public investment and leaving the community better off than it would have been otherwise.

This model justifies the most common methodology of targeted economic development subsidy, tax abatements, through what is known as the "but for" argument: Since the company would have been paying all its taxes someplace else but for the subsidy, abating the company's taxes is effectively costless to the community as the partial tax revenues are more than zero, which is what the company was paying before the subsidy.

From an ESG or corporate responsibility perspective, this is effectively an argument that the company is making a positive triple bottom line decision that will benefit both its shareholders and the community by having its decision changed by the subsidy.

The critical question is to what degree this is true in practice. Not every company has its site selection process changed by a subsidy, and some companies are happy to take free money for what they were already going to do anyway. Similarly, not every subsidy fails at its intended goals – sometimes, a targeted economic development subsidy does, in fact, lead to both higher corporate profits while benefiting the community as designed. The practical matter at the heart of this issue is what would have happened without the subsidy.

For decades, researchers have attempted to quantify this "but for" percentage in various places and in various ways. In 2018, economist Timothy Bartik of the W.E. Upjohn Institute for Employment Research undertook a landmark review of 34 different estimates from 30 different published empirical studies into the "but for" question. He reached a sobering conclusion: "[F]or at least 75 percent of incented firms, the firm would have made a similar decision location/expansion/retention decision without the incentive."[61]

Further, Bartik's finding that three-quarters of targeted economic development subsidies weren't changing business decisions is actually the most *optimistic* reading of the evidence. The other plausible limit for the "but for" percentage is much worse, he found:

> *For a typical state and local incentive package, in only 2 percent to 25 percent of the incented projects is the incentive decisive in tipping a location, expansion, or job retention decision towards that state or local area. In the other 75 percent to 98 percent of the time, the same decision would have been made without the incentive.*

Bartik's work was consistent with an influential 2004 article from Alan H. Peters and Peter Fisher of the University of Iowa in the *Journal of the American Planning Association* that concluded, "...the best case is that incentives work about 10% of the time, and are simply a waste of money the other 90%."[62]

This academic research also tracks with what the people who make these decisions for businesses have been saying for years. For more than three decades, site selection industry magazine *Area Development* has been surveying business site selection decisionmakers to determine what drives their site selection decisions. In 2023, *Area Development*'s 37th Annual Corporate Survey found that the top site selection factor in 2022 had been "labor costs," followed by "quality-of-life," "availability of skilled labor," "energy availability," and "construction costs."[63] Consistent

[61] Timothy J. Bartik, "'But For' Percentages for Economic Development Incentives: What Percentage Estimates are Plausible Based on the Research Literature?" W.E. Upjohn Institute for Employment Research, Upjohn Institute Working Paper 18-289. July 1, 2018, https://doi.org/10.17848/wp18-289.

[62] Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives," *Journal of The American Planning Association*, March, 2004, https://www.researchgate.net/publication/238713767_The_Failures_of_Economic_Development_Incentives.

[63] Geraldine Gambale, "37th Annual Corporate Survey: Economic Pressures Exerting Greatest Effect on Decision-Makers," *Area Development*, June 6, 2023, https://www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2023/37th-annual-corporate-survey-decison-makers-feel-economic-pressures.shtml.

with the study findings from Bartik, Peters & Fisher and other researchers that subsidies can sometimes play a small role in site selection decisions but are not powerful enough factors to regularly change corporate plans, "state and local incentives" and "tax exemptions" came in tied for 13th place.

As researchers Nichola Lowe of the University of Connecticut, and Mary Donegan and T. William Lester of the University of North Carolina, wrote in 2018, "This simple but direct finding—that incentives do not create jobs—should prove critical to policymakers."[64]

Big companies, little leverage

The bigger the company, the more money is at stake in getting those basic business factors like workforce quality and cost, energy costs, and logistics right. That increase in scope also makes it easier to see how little subsidies can realistically change their decision-making process – even when the price tags for those subsidies reach into the hundreds of millions or even billions of dollars.

Consider Apple's 2021 agreement with North Carolina state and municipal governments to build a new corporate campus in Wake County's Research Triangle Park. Apple will receive a reported $846 million in tax abatements and other benefits over the next 39 years, largely through a grant program that allows the company to effectively keep 90 percent of eligible employees' state income tax withholding, as well as a 30-year, 50 percent property tax abatement from Wake County.[65]

But while $846 million seems like a lot of money – and it was the largest subsidy deal in North Carolina's history at the time – it's important to note that Apple's 2021 annual sales revenues were $365.8 billion.[66] In other words, the total value of North Carolina's targeted economic development subsidies to Apple was worth less than a single day's worth of sales revenues to the company.

This raises the question of whether Apple was lured to North Carolina by such a proportionally insignificant fiscal incentive, or whether it was truly attracted by fundamental business factors such as the seventh-densest tech workforce in the nation[67] and proximity to major universities where early adopter researchers are already delving into artificial intelligence and other relevant technologies.[68]

Common sense would suggest that Apple's leadership would be unlikely to have their site selection process influenced by a factor as insignificant as less than a day's worth of revenues, spread out thinly over the next three decades.

Apple is far from alone in this regard. We can also ask a similar question about the relative size of a subsidy versus a corporate bottom line regarding General Motors' January 2022 agreement with Michigan to build or expand electric vehicle production facilities in the state, which came with a $824 million subsidy price tag.[69]

GM reported $127 billion in revenues in 2021,[70] meaning that the $824 million subsidy paid out all at once would be the equivalent of less than three days' revenues to the automaker. Spread out over the eight years of the primary subsidy's term, it would equate to a few extra hours of corporate revenues to the automaker per year, especially if it is successful in its stated goal of doubling its corporate revenues to $280 billion by 2030.[71] As with Apple in North Carolina, common sense suggests that what a GM spokesperson called "critical strategic decisions" for the automaker were driven less by a subsidy that would be a rounding error on the company's annual balance sheet and more by proximity

64 Mary Donegan, T. William Lester, and Nichola Lowe, "Striking a Balance: A National Assessment of Economic Development Incentives." W.E. Upjohn Institute for Employment Research, Upjohn Institute Working Paper 18-291, 2018, https://doi.org/10.17848/wp18-291.

65 Anna Johnson, Richard Stradling, and Tyler Dukes. "Apple Announces New Campus at Research Triangle Park, NC," *The News & Observer,* August 2, 2021, https://www.newsobserver.com/news/business/article250934144.html.

66 Apple, Inc., "CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)," October 28, 2021, https://www.apple.com/newsroom/pdfs/FY21_Q4_Consolidated_Financial_Statements.pdf.

67 "State of the Tech Workforce," CompTIA, Accessed September 7, 2023, https://www.cyberstates.org/#interactiveMap?geoid=39580__raleigh%2C-nc.

68 Mark Muro and Sifan Liu, "The Geography of Ai," Brookings Institute, September 2021, https://www.brookings.edu/research/the-geography-of-ai/.

69 Kalea Hall and Breana Noble, "State Approves $824M in Incentives for GM Battery, EV Plants," *The Detroit News,* January 25, 2022, https://www.detroitnews.com/story/business/autos/general-motors/2022/01/25/michigan-economic-development-corp-strategic-fund-board-approves-incentives-general-motors-ultium-ba/9202054002/.

70 Kalea Hall, "GM Posts $10 Billion Profit in 2021," *The Detroit News,* February 1, 2022, https://www.detroitnews.com/story/business/autos/general-motors/2022/02/01/gm-posts-10-billion-profit-2021/9242125002/.

71 Neal E. Boudette, "G.M. Hopes Electric Cars and New Businesses Will Help Double Its Revenue," *The New York Times,* October 6, 2021, https://www.nytimes.com/2021/10/06/business/gm-revenue-goals.html.

to existing production facilities, workforce, suppliers, and other fundamental business factors.

This would become even more relevant in 2024, when General Motors announced that it was selling its stake in one of the EV battery plants subsidized in the 2022 agreement to its South Korean partner. An investigation by journalists at the nonprofit Bridge Michigan news outlet estimated that at the time of the sale announcement, the state had already given GM at least $120 million of its promised $186.1 million in subsidies for the plant.[72]

From the point of view of an ESG-focused investor interested in both financial and societal benefits, a reasonable implication is that General Motors was either violating its vision statement at the time that "We create SUSTAINABLE solutions that improve the COMMUNITIES in which we live and work"[73] by taking public resources out of those communities to do what it was going to do anyway, or it was basing a business-critical site selection decision on trivial, short-term subsidy revenues at the likely long-term expense of its shareholders.[74]

It's also worth noting that GM already possessed Michigan state tax credits worth roughly $2 billion that dated back to incentives awarded in 2009. The credits were supposed to incentivize the automaker not to lay off employees during the Great Recession.[75] Just as the 2022 subsidy was unable to hold the company to plans for its electrified future for more than two years, it's also implausible that the potential for tax breaks two or three decades in the future could – or should – have meaningfully factored into GM's workforce decisions in 2009, the year in which it filed for one of the largest Chapter 11 bankruptcies in US history.

No Amazon island

The best example of how little targeted economic development subsidies do to change big companies' plans is the final outcomes of Amazon's high-profile HQ2 site selection process. After a massive, nationwide bidding war where Amazon was offered everything from billions of dollars in subsidies to municipal naming rights[76] to its own island,[77] the company chose to locate in the tech talent hubs of New York City and Washington, DC.

Yet even within those regional hubs, Amazon passed up billions of dollars in subsidies: Across the Hudson River in Newark, the state of New Jersey was offering roughly $4 billion more in subsidies than New York; while Maryland offered more than $7 billion more for a Bethesda site than Virginia did for victorious Arlington County.[78], [79] In this, Amazon demonstrated very clearly that it valued the other business-related site selection factors more highly than billions of dollars in subsidies.

72 Paula Gardner, "GM Sells Stake in Michigan EV Battery Factory Subsidized by State," Bridge Michigan, December 2, 2024, https://www.bridgemi.com/business-watch/gm-sells-stake-michigan-ev-battery-factory-subsidized-state.

73 General Motors, "Vision & Values," General Motors 2020 Sustainability Report, 2021, Archived page accessed via Internet Archive Wayback Machine, https://web.archive.org/web/20210507120957/https://www.gmsustainability.com/esg-management/vision-and-values.html.

74 As one of the co-authors of this paper testified to the Michigan House of Representatives' Commerce & Tourism Committee on the morning those subsidies for General Motors were announced, "They're getting $824 million for their local battery plant. That sounds like a lot of money; that sounds like the amount of money that's going to change a company's decision. But back in 2019, before COVID, GM posted $137 billion in revenues. $824 million is about what GM made every two days in revenues that year. If their leaders are changing their decision on where to build a factory based on two days of revenues, rather than what the best place is to put the factory, they should probably be fired by their shareholders." https://economicaccountability.org/2022/01/25/cea-president-testimony-to-michigan-house-commerce-tourism-committee-on-proposed-subsidy-legislation/

75 Jonathan Oosting, "Michigan Still Owes GM over $2 Billion in Tax Credits from Great Recession," Bridge Michigan, January 22, 2020, https://www.bridgemi.com/michigan-government/michigan-still-owes-gm-over-2-billion-tax-credits-great-recession.

76 Shannon Liao, "Georgia City Will Rename Itself Amazon If It Wins the New Headquarters" *The Verge*, October 3, 2017, https://www.theverge.com/2017/10/3/16413866/new-amazon-headquarters-stonecrest-georgia-bid.

77 Zak Failla, "New Rochelle Pushes for Amazon HQ2," *New Rochelle Daily Voice*, October 19, 2017, https://dailyvoice.com/new-york/newrochelle/business/new-rochelle-pushes-for-amazon-hq2/724577/.

78 Dan Shafer, "New Jersey Offers $7 Billion Tax Break for Amazon's HQ2," *Seattle Business Magazine*, October 16, 2017, https://www.seattlebusinessmag.com/business-operations/new-jersey-offers-7-billion-tax-break-amazons-hq2-0.

79 Leticia Miranda, Nicole Nguyen, and Ryan Mac, "Here Are the Most Outrageous Incentives Cities Offered Amazon in Their HQ2 Bids," *BuzzFeed News*, November 15, 2018, https://www.buzzfeednews.com/article/leticiamiranda/amazon-hq2-finalist-cities-incentives-airport-lounge.

Amazon then demonstrated another weakness of subsidies to overcome conditions on the ground when it pulled out of the New York City deal and gave up roughly $3 billion in state and local subsidies rather than make itself accountable to local community activists and politicians. Amazon continued to hire in NYC, however, and in 2020 paid $1.15 billion to buy Lord & Taylor's former Fifth Avenue flagship store to serve as a high-profile headquarters in the city.[80]

Eventually, Amazon executives would admit that "tech talent was the biggest driving factor" in their decisions.[81] The overall regulatory environment also mattered, said Amazon Vice President for Public Policy Brian Huseman: "It's not just monetary incentives, but it's looking at the comprehensive environment to allow companies to flourish."

A new, hilarious, and slightly horrifying factor in the HQ2 subsidy saga came to light when in 2020, *Bloomberg Businessweek* reported that Amazon's entire effort to secure massive subsidy offers had grown at least in part out of CEO Jeff Bezos's personal jealousy of Tesla CEO Elon Musk, who had secured bigger subsidies for Tesla projects than Amazon had gotten anywhere at that point.[82]

Cronyism is un-American

The United States has a long history of resisting taxation that is excessive or perceived as illegitimate. The American Revolution started as a tax revolt, and keeping taxes low has been one of the most persistent top issues in US politics.[83]

Taxpayer activism has been a mainstay of center-right politics, but also, at times, of center-left groups as well. Left-leaning critics have been vocal about what they considered bloated defense budgets[84] and corporate subsidies.[85] Moreover, Americans have long been skeptical about delivering larger amounts of tax money into the hands of the government generally. Public opinion polling shows that majorities of Americans assume that, given additional tax money, the government will likely waste much of it.[86] Even administrations famous for their expansive view of taxing and spending – like Franklin D. Roosevelt's New Deal Democrats – initially came to power with promises to cut wasteful government spending.[87]

Americans get even more upset when taxation is applied unequally, or when taxpayer money is used to benefit private parties rather than provide public services. The Boston Tea Party of 1773 is usually explained to schoolchildren as "the colonists were angry about the tax on tea," but that tax had been in place since 1767. For the Sons of Liberty, the intolerable thing about the Tea Act of 1773 was Parliament's creation of what today would be known as a corporate

80 Lisa Fickenscher, "Amazon Buying Lord & Taylor Building for $1.15 Billion," *New York Post*, March 13, 2020, https://nypost.com/2020/03/12/amazon-buying-lord-taylor-building-for-1-5-billion/.

81 Scott Cohn, "Amazon Reveals the Truth on Why It Nixed New York and Chose Virginia for Its HQ2," CNBC, July 10, 2019, https://www.cnbc.com/2019/07/10/amazon-reveals-the-truth-on-why-it-nixed-ny-and-chose-virginia-for-hq2.html.

82 Spencer Soper, Matt Day, and Henry Goldman, "Amazon's HQ2 Fiasco Was Driven by Bezos Envy of Elon Musk," Bloomberg News, February 3, 2020, https://www.bloomberg.com/news/articles/2020-02-03/amazon-s-hq2-fiasco-was-driven-by-bezos-envy-of-elon-musk?srnd=technology-vp.

83 David Beito, *Taxpayers in Revolt: Tax Resistance during the Great Depression*, (Chapel Hill, N.C.: University of North Carolina Press, 1989), pp. xi-xv.

84 Recently, for example, progressives in Congress like Sen. Elizabeth Warren (D-MA) and Sen. Bernie Sanders (I-VT) have been critical of President Joe Biden's proposal to increase defense spending by $31 billion. Alexander Bolton, "Biden faces fire from left on increased defense spending," *The Hill*, March 31, 2022, https://thehill.com/homenews/senate/600416-biden-faces-fire-from-left-on-increased-defense-spending/. Historically, left-aligned policy critics have long been critical of what they characterized as a waste of taxpayer dollars on Pentagon projects. In 2009, Rep. Barney Frank (D-MA) "…pointed to programs like the Air Force's F-22 fighter, the Osprey troop transport, and missile defense as expensive, unnecessary Cold War-era boondoggles." Nick Baumann, "Barney Frank to Obama: Cut Military Spending," *Mother Jones*, February 24, 2009, https://www.motherjones.com/politics/2009/02/barney-frank-obama-cut-military-spending/.

85 Andrew Schwartz, "The Realities of Economic Development Subsidies," Center for American Progress, November 1, 2018, https://www.americanprogress.org/article/realities-economic-development-subsidies/.

86 Emily Ekins and Hunter Johnson, "Americans Say the Federal Government Wastes 59 Cents on the Dollar," Cato Institute, *Cato at Liberty* blog, April 10, 2025, https://www.cato.org/blog/americans-say-federal-govt-wastes-59-cents-dollar. Other recent polling finds that 56 percent of US adults say government spending is almost always wasteful and inefficient, compared with 42 percent who say it often does a better job than people give it credit for. "In a Politically Polarized Era, Sharp Divides in Both Partisan Coalitions," Pew Research Center, December 19, 2019, https://www.pewresearch.org/politics/2019/12/17/views-of-government-and-the-nation/. This is consistent with survey results going back many years. See "Americans Say Federal Gov't Wastes Over Half of Every Dollar," Gallup, September 19, 2011, https://news.gallup.com/poll/149543/americans-say-federal-gov-wastes-half-every-dollar.aspx.

87 The 1932 Democratic party platform called for "an immediate and drastic reduction of governmental expenditures" and set as a goal of fiscal restraint "a saving of not less than twenty-five per cent in the cost of the Federal Government." This pledge extended beyond the federal level, with the national delegates "call[ing] upon the Democratic Party in the states to make a zealous effort to achieve a proportionate result." "1932 Democratic Party Platform," (adopted June 27, 1932), The American Presidency Project, accessed July 26, 2022, https://www.presidency.ucsb.edu/documents/1932-democratic-party-platform.

tax abatement for the British East India Company, exempting it from paying taxes on tea it sold in the American colonies.[88]

After the Revolution, the Framers wrote a ban on writs of attainder into the Constitution, and cronyist financial deals are, in effect, the inverse of that kind of injustice – one involves unfairly legislating a criminal penalty against a particular person, and the other unfairly bestowing an unearned monetary benefit. Cronyism was common in 19th century America but was also controversial and unpopular when it came to light.[89] Some small-government advocates during that time also opposed the proliferation and complexity of the tax system specifically because they worried it would be used to create a system of corporate welfare.[90] Many of what were sold as "good government" reforms of the second half of the 19th century, including the institution of the federal civil service, were a reaction to rampant cronyism and war profiteering, which were increasingly considered unacceptable outcomes. [91]

The constitutions of most US states also include "gift clauses," which are intended to stop private parties from benefiting from state expenditures without providing goods or services of equivalent value in return. In response to public disgust over corruption and fiscal crises in state finance, many states adopted such measures during the last quarter of the 19th century via individual amendment and constitutional conventions.[92] Similar provisions include "uniformity clauses," which require equal application of tax burdens, and "special law clauses," which forbid passing laws that benefit specific parties rather than apply to all parties equally. Many state constitutions also have limitations that forbid the state government from taking on more than a certain amount of debt, also a safeguard against state officials from using public credit facilities to subsidize private projects.[93]

Subsidies breed corruption

There is a direct connection between the adoption of these policies and the scandals and corruption they are intended to prevent – in other words, they were implemented for good reason. Many state gift clauses were inspired by unduly generous land deals created to benefit railroads, which were often the largest and most influential corporations of the late 19th century. They didn't stop being relevant when the rail developments of the Gilded Age ended, either. Gift clauses have been used to challenge many kinds of problematic spending up to the present time, including subsidies to local business and property developers.

The Arizona Supreme Court issued a decision in 2021 in *Schires v. City of Peoria* that government officials violated the state constitution's gift clause when they gave away millions of taxpayer dollars to two private businesses.[94] The same court also ruled in 2010 in *Turken v. Gordon* that Phoenix officials violated the law by giving almost $100 million to a private developer for a project, finding that the city's agreements with the developer did not serve a public purpose, and that the agreements were not in the public interest.[95]

Cronyism in the context of economic development policy is not just generally unpopular, but has generated many scandals and ended many political careers. Recent examples include:

[88] John C. Mozena, *America Began with a Battle Against Corporate Welfare,* Center for Economic Accountability, December 16, 2023, https://economicaccountability.org/2023/12/16/america-began-with-a-battle-against-corporate-welfare.

[89] Patrick Newman, *Cronyism: Liberty versus Power in Early America, 1607–1849* (Auburn, AL: Mises Institute, 2021).

[90] Anthony Comegna, "'The Dupes of Hope Forever:' The Loco-Foco or Equal Rights Movement, 1820s-1870s," University of Pittsburgh [doctoral dissertation], 2016, http://d-scholarship.pitt.edu/27222/1/AnthonyComegnaDissertation_1.pdf.

[91] Matthew Stephenson, "A history of corruption in the United States," *Harvard Law Today,* September 23, 2020, https://today.law.harvard.edu/a-history-of-corruption-in-the-united-states/.

[92] Matthew D. Mitchell et al., "Outlawing Favoritism: The Economics, History, and Law of Anti-Aid Provisions in State Constitutions," Mercatus Working Paper, Mercatus Center, March 25, 2020, https://ssrn.com/abstract=3561739.

[93] Timothy Sandefur, "The First Line of Defense: Litigation for Liberty at the State Level," Goldwater Institute, April 23, 2019, https://www.goldwaterinstitute.org/the-first-line-of-defense-litigation-for-liberty-at-the-state-level/.

[94] Christina Sandefur, "Corporate Welfare Defeated Again in Arizona—and for Good Reason," Goldwater Institute, February 17, 2021, https://www.goldwaterinstitute.org/corporate-welfare-defeated-again-in-arizona-and-for-good-reason/.

[95] Josh Grabel, "The CityNorth Decision, the Arizona Gift Clause, and Economic Incentive Agreements/Private Public Partnerships," Snell & Wilmer, February 3, 2010, https://information.swlaw.com/reaction/2010/Alert_TheCityNorthDecision_February2010_HTML/Alert_TheCityNorthDecision_February2010_WEB.html.

- Joseph Percoco, a top aide to then-Gov. Andrew Cuomo (D-NY), was found guilty on corruption charges in 2018 for accepting more than $300,000 in bribes.[96]
- Several other state officials and Cuomo advisors were also convicted of crimes such as wire fraud relating to the scandal around the management of the state of New York's Buffalo Billion economic development fund.[97]
- In 2019, the chief operating officer of the Montgomery County, Maryland, Department of Economic Development, Byung Il "Peter" Bang, was sentenced to four years in federal prison for embezzling more than $6.7 million in economic development funding from the county and state over six years.[98]
- That same year, the St. Louis, Missouri, Economic Development Partnership was embroiled in a pay-to-play scandal that resulted in County Executive Steve Stenger pleading guilty to three federal felonies and receiving a 46-month prison sentence.[99]
- In 2023, Anaheim, California Mayor Harry Sidhu pled guilty to federal charges related to a stadium subsidy deal between the city and the Los Angeles Angels baseball team.[100] Sidhu reportedly expected at least $1 million in campaign contributions from the Angels in return for providing confidential information to team representatives during negotiations.

Unsurprisingly, scandals like these take a toll on public perceptions and confidence in the ability of governments to be neutral arbiters in commercial affairs. In 2014, Rasmussen Reports found that only about a third of Americans believed that the United States economy was "a system of free market capitalism," with roughly the same amount believing that it was "a system of crony capitalism."[101] In 2019, the Campaign Legal Center asked voters whether seven different issues were an "extremely serious problem" for the country, and the only one where a majority said yes was political corruption.[102] Among registered voters polled by *The New York Times* and Siena College in 2022 who were worried about threats to democracy, the top volunteered worry was government corruption.[103]

Oversight is not enough

The expanding size and scope of state and local government economic development subsidy programs over recent decades, even as evidence has mounted for their wastefulness and inefficiency, makes it clear that the existing oversight and regulatory structures are insufficient. A new source of pressure is required to change incentives for policymakers.

Theoretically, the average American has no need to invest the time and effort necessary to gain the specialized knowledge required to become involved in the politics of taxation and economic development policy. Instead, through their elected representatives, they have created and empowered economic development agencies to act on their behalf. But while these agencies are intended to represent the public interest, in practice they are regularly captured by those who benefit from subsidies, such as commercial real estate developers and locally influential industries.

96 E.J. McMahon and Seth Barron, "Corruption and 'Economic Development' in New York State," *City Journal*, April 4, 2018, https://www.city-journal.org/html/corruption-and-economic-development-new-york-state-15805.html.

97 Zach Williams, "Ex-Suny Poly prez Alain Kaloyeros released from prison after 'Buffalo Billion' conviction," *New York Post*, July 6, 2022, https://nypost.com/2022/07/06/alain-kaloyeros-released-from-prison-after-buffalo-billion-conviction/.

98 "Former Chief Operating Officer of Montgomery County Department of Economic Development Sentenced to Four Years in Federal Prison for Embezzling over $6.7 Million in County Funds," US Attorney's Office, District of Maryland, February 22, 2019, https://www.justice.gov/usao-md/pr/former-chief-operating-officer-montgomery-county-department-economic-development.

99 US Attorney's Office, Eastern District of Missouri, "Former St. Louis County Executive Seven V. Stenger Sentenced to Federal Prison for 'Pay to Play' Bribery Scheme," press release, August 9, 2019, https://www.justice.gov/usao-edmo/pr/former-st-louis-county-executive-seven-v-stenger-sentenced-federal-prison-pay-play.

100 "Former Mayor of Anaheim Agrees to Plead Guilty to Federal Charges Stemming from Attempted Sale of Angel Stadium," United States Department of Justice, August 16, 2023, https://www.justice.gov/usao-cdca/pr/former-mayor-anaheim-agrees-plead-guilty-federal-charges-stemming-attempted-sale-angel.

101 Rasmussen Reports, "Politics: 31% Believe U.S. Has Crony Capitalist System," April 9, 2014, https://www.rasmussenreports.com/public_content/politics/general_politics/april_2014/31_believe_u_s_has_crony_capitalist_system.

102 Sara Swann, "Political corruption seen as America's biggest problem, another poll shows," *The Fulcrum*, November 18, 2019, https://thefulcrum.us/big-picture/political-corruption-poll. Original results of the poll itself are at "CLC FEC Poll Results," Campaign Legal Center, November 18, 2019, https://campaignlegal.org/document/clc-fec-poll-results.

103 "Topline Results for the October 2022 Times/Siena Poll of Registered Voters," *The New York Times*, October 18, 2022, https://www.nytimes.com/interactive/2022/10/18/upshot/times-siena-poll-toplines.html.

Thus, it is not surprising that entrenched incumbent corporations are disproportionately able to bend the requirements of incentive programs to serve their own interests.[104] In this sense, cronyism in economic development policy is another kind of regulatory capture. Regulated firms with established relationships with the government officials – the ones meant to regulate and discipline their behavior – can manipulate those officials into creating policy that benefits the firms rather than the public.[105]

Just as politicians manage subsidy programs to their own benefit rather than to the benefit of their constituents, and just as companies seek out and accept subsidies that are unjustified by the realities of their business, so too do the ostensible subject matter experts, regulators, and auditors in economic development agencies. In conjunction with the subsidies they manage, these agencies have grown to the point where the National Association of Development Organizations (NADO) represents a dizzying array of more than 540 economic development organizations of various kinds, including

> *"..area development districts, association of governments, councils of governments, councils of local governments, economic development associations, economic development councils, economic development corporations, economic development districts, local development districts, planning and development councils, planning and development districts, planning district commissions, regional commissions, regional councils, regional development commissions, regional planning and development councils, regional planning commissions, and other types of multi-jurisdictional development entities around the country."* [106]

As often occurs with regulatory agencies, a revolving door has grown up between economic development organizations and lobbying and consulting firms that campaign for subsidies. This exacerbates the lack of transparency seen in subsidy deals. In 2019, a *Wall Street Journal* exposé pulled back the curtain on the "fixers pitting states against each other to win tax breaks for new factories." It detailed how site selection consultants working on commission convinced companies that would have otherwise located without subsidies to ask for and receive millions of dollars from elected officials.[107]

Pumping the brakes in Georgia

In 2022, a judge in Georgia took the virtually unprecedented step of refusing to authorize governments to issue bonds to fund a $1.5 billion subsidy for a Rivian Motors electric vehicle plant after economic development agency officials admitted under oath that they had done virtually no due diligence on Rivian's business plans or on the massive project's potential impact on local communities.[108]

Georgia Superior Court Judge Brenda Trammell ruled that the bond sale mechanism at the heart of the deal's structure was not "sound, feasible and reasonable" and did not "promote the general welfare of the local community." Trammell noted that under oath, Joint Development Authority representatives had "admitted that the JDA did not employ an investment banker, economist, financial analyst or other third-party to evaluate the financial wherewithal of Rivian and its ability to commence and complete the project."

Additionally, Trammell noted that economic development agency representatives had admitted that despite there being no constitutional or legal basis for governments in Georgia to abate corporate property taxes, the deal was structured effectively "to offer property tax incentives" – and that it was common practice throughout the state to do so.

"This Court does not find that this provision is sound, feasible or reasonable, and cannot validate these bonds with the offending provision," she ruled.

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104 Virginia Gray and Joshua M. Jansa, "Captured Development: Industry Influence and State Economic Development Subsidies in the Great Recession Era," *Economic Development Quarterly*, December 15, 2016, https://journals.sagepub.com/doi/10.1177/0891242416682300. "...established firms are the disproportionate beneficiaries."

105 Jon Sanders, "Regulatory capture, the hidden cronyism," John Locke Foundation, February 11, 2020, https://www.johnlocke.org/regulatory-capture-the-hidden-cronyism/.

106 https://www.nado.org/about/.

107 Lauren Justice, "Meet the Fixers Pitting States against Each Other to Win Tax Breaks for New Factories," *The Wall Street Journal*, May 20, 2019, https://www.wsj.com/articles/meet-the-fixers-pitting-states-against-each-other-to-win-tax-breaks-for-new-factories-11558152005.

108 *State v. Joint Development Authority Et. Al, Final Order on Bond Validation,* 2022-SU-CA-128, (Superior District Court of Morgan County, GA, September 29, 2022), https://www.scribd.com/document/597567910/State-v-Joint-Development-Authority-Et-Al-Final-Order-on-Bond-Validation#from_embed.

A revolving door in Michigan

The career of Douglas Rothwell in Michigan is an example of this back-and-forth between economic development agencies and the companies they subsidize and oversee. From 1993 to 2003, Rothwell was the president and CEO of the Michigan Economic Development Corporation (MEDC), Michigan's primary economic development agency.[109] He left the MEDC when control of Michigan's governor's mansion switched from Republican John Engler to Democrat Jennifer Granholm, becoming the executive director of worldwide real estate for General Motors where he "Directed the corporation's global property acquisition, leasing, disposition and redevelopment activities."[110] In that role, he reported to Matthew Cullen, GM's general manager for economic development and enterprise services, who also served at the time as the chair of the MEDC's executive committee. In 2005, Rothwell left GM to become president and CEO of Business Leaders for Michigan, a chamber of commerce "composed exclusively of the executive leaders of Michigan's largest companies and universities," including General Motors.[111] In 2010, Rothwell would replace Cullen as chairman of the MEDC's Executive Committee as Republican Gov. Rick Snyder took office.[112]

In 2015, while Rothwell was still the chairman of the MEDC's executive committee and the president of the Business Leaders for Michigan big-business lobbying group, billions of dollars' worth of tax credits handed out to automakers and other large corporate recipients during the Great Recession came home to roost in Michigan. The Michigan Economic Growth Authority (MEGA) tax credits that were created while Rothwell had been president and CEO of the MEDC became a budget-busting problem for the state, with state fiscal analysts warning of a $454.4 million budget shortfall just four months into the state's fiscal year thanks to companies cashing in their MEGA credits.[113]

A Pew Charitable Trusts analysis of that MEGA tax credit program that year found that Michigan's elected and appointed officials had failed to carefully design the program to limit costs and had badly underestimated the eventual budgetary impact.[114] In 2017, the Citizens Research Council of Michigan estimated that MEGA credits would continue to reduce state tax revenues by more than $500 million per year until 2029.[115]

The state eventually dealt with the budget shortfall by shifting $250 million from the School Aid Fund; cutting $102.9 million from agencies including the State Police, Department of Community Health, Department of Human Services and Department of Corrections; shifting funding away from community colleges and reducing payments to the state's teacher pension fund.[116]

One then-unidentified business had an outsized role in this budgetary crisis, cashing in $224 million of state tax credits in December 2014.[117] Amid suspicion that it was General Motors redeeming credits it had received while its then-general manager of economic development Matthew Cullen was the chairman of the MEDC, the state faced widespread calls to open up the books and reveal the value of tax credits held by GM and other corporations. However, the Rothwell-chaired MEDC granted his former employer's request not to disclose the amount of state tax credits held by the company at the time, saying that this information fell under the agency's FOIA exemption for "financial or proprietary information."[118] Open-government advocates sued, but the state Court of

[109] Douglas Rothwell, "Doug Rothwell," LinkedIn, Accessed October 25, 2023, https://www.linkedin.com/in/dougrothwell.

[110] Jack Lyne, "Michigan's Rothwell Moving from ED Role to GM Real Estate," Site Selection Online, December 16, 2002, https://siteselection.com/ssinsider/snapshot/sf021216.htm.

[111] "Who We Are," Business Leaders For Michigan, Accessed October 25, 2023, https://businessleadersformichigan.com/about/who-we-are/.

[112] "Snyder Says Doug Rothwell to Be Chairman of MEDC; Mike Finney to Be CEO ...," *Crain's Detroit Business*, December 13, 2010, https://www.crainsdetroit.com/article/20101213/FREE/101219961/snyder-says-doug-rothwell-to-be-chairman-of-medc-mike-finney-to-be.

[113] Chad Livengood, "Michigan House Agency: $454M Shortfall This Year," *The Detroit News*, January 15, 2015. https://www.detroitnews.com/story/news/politics/2015/01/14/michigan-budget-deficit/21775541/.

[114] Josh Goodman, "Faulty Forecasts: Michigan's Mega Tax Credit," The Pew Charitable Trusts, December 2, 2015, https://www.pewtrusts.org/en/research-and-analysis/articles/2015/12/02/faulty-forecasts-michigans-mega-tax-credit.

[115] Eric Lupher, "Challenges Ahead in Balancing the State Budget," Citizens Research Council of Michigan, October 19, 2017, https://crcmich.org/presentations/2010s/2017/Budget_Stress_IMA-101917.pdf.

[116] Chad Livengood and Gary Heinlein, "Snyder Cuts $103m to Help Close $325M Shortfall," *The Detroit News*, February 12, 2015, https://www.detroitnews.com/story/news/politics/2015/02/11/michigan-budget-cuts/23230481/.

[117] Chad Livengood, "Michigan Deficit Likely to Trigger Cuts in Services," *The Detroit News*, January 20, 2015, https://www.detroitnews.com/story/news/politics/2015/01/16/treasury-michigan-facing-shortfall/21857047/.

[118] Jonathan Stock, "Public Records – for Major Incentives, a Michigan Case Shows Some Rules Can Be Rethought," *Development Incentives Quarterly*, Summer 2000, https://www.vorys.com/publications-2732.html.

Appeals eventually upheld the MEDC's argument. Five years later, General Motors and the MEDC would publicly disclose that the automaker was still sitting on $2.27 billion in tax credits that would not expire until 2029.[119]

No fear of FOIA

General Motors is far from the only company to seek out protection from public transparency, even when it comes to its receipt of public funding. In 2019, Amazon's HQ2 subsidy agreements with Arlington County reportedly included a clause committing the city government to let the company know if someone filed a FOIA request that involved Amazon, and give the company "not less than two (2) business days written notice of the request to allow Amazon to take such steps as it deems appropriate with regard to the requested disclosure of records." [120] Amazon's agreement with the state of Virginia included a similar commitment.[121]

Unsurprisingly, researchers have found that companies are most likely to challenge FOIA requests when they have quietly renegotiated the terms of their subsidy deals to reduce their obligations to create jobs or otherwise deliver community benefits.[122] The practical result is that the headlines announcing the original deal remain the only source of information for local stakeholders, while the diminished reality remains out of public view.

In many cases, state open records, open meetings, and other sunshine laws have specific carveouts exempting economic development agencies from their scope or limiting their applicability to those agencies' operations. Additionally, many state and municipal governments structure their economic development agencies as corporations rather than government agencies, adding layers of complexity to transparency efforts.

Additionally, governments regularly avoid transparency by signing nondisclosure agreements negotiated between state and local development officials, which may or may not be subject to a state's general provisions on public records or its freedom of information laws.[123]

Economic development agencies' persistent aversion to transparency is inconsistent with their supposed role of operating in the public good and should be a red flag to anyone who cares about good governance.

Subsidies offered in secret

More than 200 cities or regions across the United States presented proposals as part of Amazon's site selection process for its HQ2 project. One of Amazon's requirements for bidders was that they keep their proposals confidential and not share them publicly.

This created a situation where governments were making massively expensive promises and offering unprecedented special treatment to a particular company, but residents and taxpayers of these communities were intentionally prohibited from being given any insights into the proposals or opportunities to weigh in on their scope or cost.

After the HQ process had run its course, these proposals eventually made their way into the public record. That is how we now know, for instance, that St. Louis offered $7.1 billion in subsidies,[124] Pittsburgh offered $4 billion,[125] Detroit offered $4 billion,[126] and Cincinnati offered $3.1 billion.[127] That's also how people in some communities across America

[119] Chad Livengood, "GM's remaining MEGA tax credits valued at $2.27 billion after $325 million reduction," *Crain's Detroit Business*, January 22, 2020, https://www.crainsdetroit.com/automotive/gms-remaining-mega-tax-credits-valued-227-billion-after-325-million-reduction.

[120] "County Board Agenda Item Meeting of March 16, 2019." Arlington County, Virginia, March 16, 2019, https://arlington.granicus.com/MetaViewer.php?view_id=2&event_id=1355&meta_id=184432.

[121] Patricia Sullivan, "Open-Records Activists Question Amazon-Arlington Disclosure Clause," *The Washington Post*, March 16, 2019, https://www.washingtonpost.com/local/virginia-politics/open-records-advocate-questions-amazon-arlington-disclosure-clause/2019/03/14/6ebe3124-44fd-11e9-8aab-95b8d80a1e4f_story.html.

[122] Nathan M. Jensen and Calvin Thrall, "Who's Afraid of Sunlight? Explaining Opposition to Transparency in Economic Development: Business and Politics," Cambridge Core, June 21, 2021, https://www.cambridge.org/core/journals/business-and-politics/article/whos-afraid-of-sunlight-explaining-opposition-to-transparency-in-economic-development/BFCB764229B4C5869D1DEE7C0BAFC987.

[123] Sean P. Byrne and Scott J. Ziance, "Nondisclosure Agreements in Economic Development: Best Practices and Special Public Entity Issues," Vorys, Sater, Seymour and Pease LLP, November 19, 2020, https://www.vorys.com/publications-2797.html.

[124] Jacob Kirn, "$7.1 Billion in Subsidies Offered in St. Louis' Failed Amazon Bid," *St. Louis Business Journal*, January 18, 2018, https://www.bizjournals.com/stlouis/news/2018/01/18/st-louis-is-not-a-finalist-for-amazons-hq2.html.

[125] "Proposal for Amazon HQ2 - Pittsburgh," City of Pittsburgh, October, 2017, http://www.natemjensen.com/wp-content/uploads/2018/11/Pittsburgh.pdf.

[126] Chad Livengood, "Detroit Offered $4 Billion for Amazon HQ2, State Says." *Crain's Detroit Business*, May 25, 2018, https://www.crainsdetroit.com/article/20180525/news/661816/detroit-offered-4-billion-for-amazon-hq2-state-says.

[127] "Economic Development Incentive Summary," City of Cincinnati, March, 2018, https://www.natemjensen.com/wp-content/uploads/2018/03/Cinci-Incentive-Proposal-Project-Conway.pdf.

discovered that their elected officials and economic development agencies had been making some large – and often unusual – promises to Amazon on their behalf that went over and above dollars-and-cents subsidy price tags. For instance:

- Atlanta offered $2 billion, a street named after Amazon, dedicated cars on the city's public-transit trains to move Amazon packages around the city, and a private lounge and free parking at Hartsfield International Airport.[128]
- Cleveland offered Amazon its own electrical grid in addition to a $3.5 billion subsidy.[129]
- Columbus, Ohio, offered around $500 million, and assured Amazon that it would dedicate resources to lower its "unacceptable murder rate."[130]
- New Rochelle, New York offered ownership of a former Army base on a 78-acre private island.[131]
- A collection of cities around Dallas–Fort Worth Airport in Texas offered more than $20 billion over 99 years, with reportedly no proposed "clawback" mechanism to get the land or money back if anything went wrong.[132]

However, there remains one place in America where residents still don't know what offers were made on their behalf. That's because the elected officials and economic development agency bureaucrats of Indiana not only refused to release their bid details but also went to court to defend that decision – and won. In 2021, an appeals court in Indiana ruled that the Indiana Economic Development Corporation did not have to release its HQ2 bid for Indianapolis, with the judge accepting the agency's argument that the bid was simply a negotiating proposal and not a final offer that would be subject to the state's open records laws.[133]

While the Indiana Economic Development Corporation may stand alone in not releasing its HQ2 bid, its desire – and ability -- to keep information of clear public interest out of the hands of the public is all too common across America's economic development bureaucracies. This is, again, antithetical to basic principles of good governance and raises serious questions about whether agencies are truly working in the public interest.

Audits are no silver bullet

One of the rare places where economic development agencies can find themselves subject to transparency and accountability is in formal audits by government auditors. While not every state requires such a public assessment, enough do that it is possible to see trends over time in the kinds of issues those audits identify. It is rare to see an official audit of economic development programs that does not raise concerns about lax recordkeeping, questionable ROI methodology, insufficient oversight, or other fundamental failures.

For instance:

- A 2019 Wisconsin Legislative Audit Bureau report found that the Wisconsin Economic Development Corporation only created roughly 35 percent of the jobs it promised in 2018, subsidized jobs that were actually located outside the state and "cannot know how many jobs were actually created or retained" because of poor management of data collection and analysis.[134]

[128] Amy Wenk and Douglas Sams, "First Look: How Amazon Could Have Changed the Atlanta Skyline," *Atlanta Business Journal*, November 13, 2018, https://www.bizjournals.com/atlanta/news/2018/11/13/first-look-how-amazon-could-have-changed-the.html.

[129] Editorial Board, "Cleveland's Long-Secret Amazon HQ2 Bid Is a Prime Example for Why Sunshine Matters," *The Plain Dealer*, March 15, 2019, https://www.cleveland.com/opinion/2019/03/clevelands-long-secret-amazon-hq2-bid-is-a-prime-example-for-why-sunshine-matters-editorial.html.

[130] Tom Bosco, "Columbus Releases Some Details of Their Pitch to Get Amazon HQ2." WSYX-TV, October 9, 2018, https://abc6onyourside.com/news/local/columbus-releases-some-details-of-their-pitch-to-get-amazon-hq2.

[131] Ethan Rothstein, "Amazon Island? New Rochelle's Bid for Amazon HQ2 Includes 78-Acre Worker Playground," *Bisnow*, October 21, 2017, https://www.bisnow.com/new-york/news/economy/amazon-hq2-amazon-island-new-rochelle-80595.

[132] Shawn Shinneman, "Not a Typo: To Lure Amazon, DFW Airport Had a Plan to Offer Nearly $23 Billion over 99 Years," *D Magazine*, December 13, 2018, https://www.dmagazine.com/frontburner/2018/12/not-a-typo-to-lure-amazon-dfw-airport-had-a-plan-to-offer-nearly-23-billion-over-99-years/.

[133] Johnny Magdaleno, "Appeals Court Ruling Protects Amazon HQ2 Proposal Documents from Public Release," *The Indianapolis Star*, January 1, 2021, https://www.indystar.com/story/news/local/marion-county/2021/01/01/judge-rules-indianapolis-amazon-hq-2-proposal-not-public-record/4104038001/.

[134] Joe Chrisman, "Report 19-6: Wisconsin Economic Development Corporation," Wisconsin Legislative Audit Bureau, May 2019, https://legis.wisconsin.gov/lab/media/2856/19-6highlights.pdf.

- The New Jersey State Comptroller's 2019 performance audit of the New Jersey Economic Development Authority found that the NJEDA had overstated per-deal economic impact by as much as $11.2 million, approved $29.2 million in job creation subsidies to a company that actually decreased its employment in the state, and had dozens of other analysis and oversight failures.[135]
- A 2019 state Auditor General performance audit of Michigan Business Development Program subsidies found that the Michigan Economic Development Corporation had been overstating the MBDP's return on investment by at least 30 percent. It also uncovered that the MEDC failed to collect documentation backing up hiring claims by subsidized companies in violation of state statute.[136]
- A 2020 Georgia Department of Audits and Accounts review of the state's massive film tax credit program found more than $60 million in tax credits for ineligible productions or expenses, including parking tickets and lost petty cash.[137] It also found that the Georgia Department of Economic Development (GDEcD) had been using an artificial multiplier in its economic impact calculations "without a clear source of the multiplier or evidence of its accuracy" that made the film credit's benefits look almost twice as large as they should have.[138] (It also noted that the GDEcD had based its job creation figures on a Motion Picture Association of America database that included such non-production-related jobs as multiplex concession stand workers as film industry jobs, further skewing results.) A contemporaneous independent academic analysis of the program found that it was costing Georgia's taxpayers $119,000 per full-time-equivalent job, with the total financial burden averaging out at $220 for every household in the state.[139]
- In 2020, Missouri audited the $657.8 million that the St. Louis Development Corporation had provided to 109 projects. The audit found that the agency had virtually abdicated oversight of its Tax Increment Financing program. It stated that agency's TIF policy "does not include specific program goals or strategic preferences, does not clearly define the evaluation process or criteria to be used in project selection, and does not include effective project cost limits or overall program cost controls." In addition, the city used flawed cost-benefit projections, didn't comply with accounting standards, and didn't "define how the need for TIF incentives should be determined and documented." These failures are damning enough on their own, but the audit's finding that the St. Louis Development Corporation's fee structure "creates the appearance of a conflict of interest" is perhaps suggestive that these were sins of commission rather than omission.[140]

These and other similar audits demonstrate one of the fundamental flaws of the standard model of economic development subsidy governance in the United States: The authority and responsibility to ensure that these programs are operated in the public interest lie with agencies that regularly fail to operate in a manner consistent with that charge. Economic development agencies are supposed to be holding companies accountable for their commitments to deliver tangible benefits to the public in return for the subsidies they have received. Unfortunately, they have been captured by the very companies, industries, and interests they are supposed to be holding accountable.

Thanks in part to these and other audits, many states have implemented new rules in recent years that require more documentation and accountability measures from their economic development funds. Some have instituted or expanded claw-back provisions, which require the firm in question to pay back certain incentive advantages if the stated goals of the development project are not met.[141]

135 Phillip James Degnan, "NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY - A PERFORMANCE AUDIT OF SELECTED STATE TAX INCENTIVE PROGRAMS," State of New Jersey Office of the State Comptroller, January 9, 2019, https://www.nj.gov/comptroller/news/docs/eda_final_report.pdf.

136 Doug A. Ringler, "Performance Audit Report: Michigan Business Development Program." Office of the Auditor General, January, 2019, https://audgen.michigan.gov/wp-content/uploads/2019/01/r186050017-9955.pdf.

137 Greg S. Griffin and Leslie McGuire. "Administration of the Georgia Film Tax Credit," Georgia Department of Audits and Accounts, January, 2020, https://www.audits.ga.gov/ReportSearch/download/23486.

138 Greg S. Griffin and Leslie McGuire. "Impact of the Georgia Film Tax Credit," Georgia Department of Audits and Accounts, January, 2020, https://www.audits.ga.gov/ReportSearch/download/23536.

139 John Charles Bradbury "Film Tax Credits and the Economic Impact of the Film Industry on Georgia's Economy" (June 21, 2019). Bagwell Center Policy Brief, July 21, 2019, http://dx.doi.org/10.2139/ssrn.3407921.

140 Nicole R. Galloway, "City of St. Louis - Tax Increment Financing." Missouri State Auditor, September, 2020, https://app.auditor.mo.gov/Repository/Press/2020076701653.pdf.

141 GBQ Partners LLC, "Beware of Clawback Provisions Related to Incentives," June 15, 2016, https://gbq.com/beware-of-clawback-provisions-related-to-incentives.

Unfortunately, the arms race between incentive-seeking firms and taxpayer advocates has continued to evolve around these mechanisms, frequently to the detriment of fiscal soundness. Many incentive deals now contain *post hoc* amendments effectively loosening statutory accountability requirements. Recent research shows that these amended deals are the ones that firms are most likely to use confidentiality agreements and state records laws to shield from public view.[142]

While official government audits are important tools for identifying waste, fraud, and mismanagement within economic development agencies, they do not by themselves create sufficient political incentives for elected officials to dramatically reform or eliminate programs or agencies. The impetus for those necessary reforms must come from somewhere else.

Responsible investing vs. corporate welfare

The entire justification for government economic development programs is that they create more benefits for a community than they cost in public resources. In other words, economic agencies' subsidy deals are supposed to be structured and managed with the public interest as their foremost concern.

Unfortunately, this is not how things work in the real world. Economic development deals are made for self-serving political reasons. Agencies are guilty of failing to exercise regulatory oversight thanks to capture by the very interests they are supposed to hold accountable. Promised benefits rarely appear, and the price tags continue to inflate.

The reason for this is simple: There are three primary crony interests in play, none of which have an incentive to upset the status quo. Elected officials benefit politically from taking credit for job creation with their constituents, agency bureaucrats make a living managing subsidy programs while eying future opportunities as consultants or corporate executives, and business executives enjoy the free subsidy checks or tax abatements they receive from participating in these programs.

If America's wasteful, harmful, and ineffective economic development status quo is going to change, then pressure must be brought from outside to change the incentives for some – or all – of the players in the corporate welfare game. This is where advocates of responsible investing and ESG activists can and should play a role, using their ability to pressure business and government to work toward the public good.

Reasons to shun subsidies

Many corporations have policies and initiatives related to climate change, workplace diversity, and stakeholder engagement. They should publish their policy on subsidies as well. They should also instruct their attorneys and lobbyists to use the firm's anti-cronyism policy as guidance in negotiations and other interactions with policymakers. There is a practical and immediate value in this to the roughly 80 percent of companies that do not receive economic development subsidies.

One prominent corporate leader who has advanced this vision is longtime Koch Industries CEO Charles Koch. On the subject of cronyism, he has said:

> *Corporate welfare is one of the biggest problems in our society and one of the things I'm most passionate about getting rid of. […] Today, the system is so corrupted that if you're in business, it's virtually impossible to avoid being affected, positively or negatively, by anti-competitive regulations, tariffs, subsidies, tax preferences, you name it. It drives me crazy.*
>
> *Like all businesses, we [at Koch Industries] abide by the rules of the road — and our business benefits from many of these, all of which we would rather do without. But unlike others, we oppose special-interest corporate welfare of every kind and are actively working to eliminate it, even when doing so reduces our profits.*[143]

It can be difficult to see this dynamic in action, since its basis is a negative one of *not* participating in shady deals. There are examples to point to, however.

[142] Nathan M. Jensen and Calvin Thrall, "Who's Afraid of Sunlight? Explaining Opposition to Transparency in Economic Development," *Business and Politics* (2021), 23, 474–491, doi:10.1017/bap.2021.8.

[143] Charles Koch, "Frequently asked questions with Charles Koch and Brian Hooks," Stand Together, April, 2020, https://standtogether.org/frequently-asked-questions.

In 2018, for example, United Wholesale Mortgage President & CEO Mat Ishbia returned the $1.9 million in brownfield tax incentives his company's new headquarters project had been awarded by the state of Michigan, saying his company's property taxes should support the local schools as intended. "We feel it's better for the city to give that money to schools, children, or other causes that need the money more than we do," Ishbia said at the time. When the state's development agency insisted that UWM's tax breaks were necessary to retain jobs that the company would otherwise move out of state, Ishbia made clear that moving out of state had never been a possibility.[144] Other corporate leaders should emulate Ishbia's example.

The goal of ESG advocates should not be to insist that companies refuse any possible advantageous government policy out of concessionary virtue, but rather that they join their voices and influence to insist on transparency and a level playing field for all businesses. Policies that are targeted at a particular company or industry are the primary problem, not generally applicable provisions of law. Many of the elements of targeted incentive deals could be recast as open programs available to any business able to demonstrate some positive impact, or to the highest bidder willing to guarantee the greatest return to the community. This wouldn't solve every problem, as even open incentive programs might still be poorly designed, but it would eliminate most of the inherent unfairness of current targeted agreements.

Foreign Corrupt Practices Act lessons

There are existing frameworks that can serve as models for an anti-cronyism pledge for corporate America, such as the Foreign Corrupt Practices Act (FCPA). Congress passed the FCPA in 1977 to prohibit US citizens and entities from bribing foreign government officials to benefit their business interests. The US Department of Justice and the Securities and Exchange Commission are deeply involved in FCPA compliance and monitoring. The law also extends to foreign companies and individuals who engage in corrupt practices while in the United States. In addition, Congress recently augmented the protections of the FCPA by passing the Foreign Extortion Prevention Act (FEPA), a new anti-bribery law. FEPA violators will face up to 15 years in prison and a maximum fine of $250,000 or three times the value of the bribe.[145]

The US government has long considered itself a force for combating corruption around the world, with the US State Department taking the lead on the issue, working "across the globe to prevent graft, strengthen investigation and prosecution of corruption, promote transparency, and empower civil society and independent media to expose corruption and advance reforms."[146] This includes partnering with other agencies on the implementation of longstanding statutes like FCPA and new initiatives that are part of the current administration's US Strategy on Countering Corruption.[147]

Given that the US has held itself up as an exemplar and source of training and best practices for other nations on transparency and anti-corruption measures, it is reasonable and fitting that corporations that are US-based (or do significant business in the US) should also take the initiative on refusing to participate in cronyism at home.

Many large firms already issue transparency and anti-corruption reports on their overseas operations. Future reports on this type could easily be expanded to include descriptions of how such companies have avoided or refused the advantages of targeted economic development benefits funded by domestic taxpayers.

ExxonMobil, for example, says that it is "committed to preventing corruption, complying with all legal requirements, operating with the highest ethical business practices and communicating openly with transparent processes," citing its refinery and petrochemical facility in Baton Rouge, Louisiana as an example of how the firm works with local

144 John C. Mozena, "Demand honesty on state's economic development subsidies," *The Oakland Press*, June 17, 2021, https://www.theoaklandpress.com/2018/10/24/column-demand-honesty-on-states-economic-development-subsidies/?clearUserState=true.

145 Susan K. Whaley, "U.S. Congress Ushers in a New Era of Anti-Corruption Enforcement," Sidley Austin LLP, December 26, 2023, https://www.sidley.com/en/insights/newsupdates/2023/12/us-congress-ushers-in-a-new-era-of-anti-corruption-enforcement.

146 "Anti-Corruption and Transparency," US Department of State, accessed May 20, 2024, https://www.state.gov/policy-issues/anti-corruption-and-transparency/.

147 "United States Strategy on Countering Corruption," The White House, December, 2021, https://www.whitehouse.gov/wp-content/uploads/2021/12/United-States-Strategy-on-Countering-Corruption.pdf.

communities in a transparent manner.[148] Microsoft says that it prohibits "offering or paying bribes, kickbacks, or other improper benefits to anyone." The tech giant insists that it "will forego business rather than secure it through a bribe, kickback, or other improper benefit."[149] It's not clear from this language how wide Microsoft's definition of "improper benefit" extends. Ideally, any non-transparent or non-generally available financial benefit, as in the case of a targeted economic incentive, would also be included.

Because major firms already have robust and well-developed anti-corruption reporting and training practices, it would be a matter of relatively little additional effort to expand them to include improper economic development deals. For many firms, their FCPA compliance and related policies are already part of their existing responsible investing framework. The pharmaceutical company Novartis, for example, already includes its Anti-Bribery Report under the top-level heading of ESG on its website.[150]

How to change corporate governance

Policy advocates who are concerned with corruption and taxpayer protections should prioritize holding corporations accountable for their actions in this area, applying public pressure to congratulate the good firms and criticize the bad ones. This can take the form of press releases, petitions, boycotts, or shareholder resolutions at corporate board meetings. Shareholder activism has inspired significant moves in corporate policy on other important policy issues. There is no reason to believe that a similar playbook of engagement could not deliver similar results for taxpayer protections.

Left-of-center shareholder resolutions are old hat by now in the world of activist investing, going back at least to the 1980s. Today, organizations like As You Sow and the Shareholder Rights Group advocate for resolutions on a wide variety of environmental and social topics. Right-of-center shareholder activism is a more recent phenomenon but has picked up steam in the 21st century. The National Center for Public Policy Research's Free Enterprise Project, which describes itself as "the conservative movement's only full-service shareholder activism and education program," has been the most prominent effort to engage in the process. Other nonprofit organizations and politically aligned investment funds have also been influential and garnered headlines, including 2nd Vote, Inspire Investing, Bowyer Research, 1792 Exchange, and Strive Asset Management.[151]

In recent years, regulatory guidance from the Securities and Exchange Commission has changed with presidential administrations, with Biden-era policy generally making it easier for shareholder activists to advance ESG-style proposals.[152] After the re-election of Donald Trump and under the leadership of acting chairman Mark Uyeda, the SEC issued updated guidance again giving corporations more leeway in excluding shareholder proposals that management deems not to be economically relevant or that threaten to micromanage ordinary day-to-day business operations.[153] Even with this narrower range of action, however, taxpayer protection advocates still have substantial opportunities to engage in the process.

We have also seen how the favor-seeking process can have a negative effect on even the most popular companies.[154] When Amazon's HQ2 search generated bids from over 200 cities across the country, much of the news media attention at the end of the process focused on public anger at the taxpayer giveaways that so many governments had been eager to extend.[155]

Amazon ended up announcing two large developments – one each in New York City and

148 "Transparency and anti-corruption," ExxonMobil, October 31, 2018, https://corporate.exxonmobil.com/who-we-are/corporate-giving/working-with-communities/transparency-and-anti-corruption.

149 "Our commitment to anti-corruption & anti-bribery," Microsoft, accessed May 20, 2024, https://www.microsoft.com/en-us/legal/compliance/anticorruption.

150 "Anti-Bribery Report," Novartis, January, 2024, https://www.novartis.com/esg/ethics-risk-and-compliance/compliance/anti-bribery-report.

151 Jeff Green, "How One Family Aims to Break Liberals' Corporate Voting Power," Bloomberg, April 29, 2025, https://www.bloomberg.com/news/articles/2025-04-29/how-conservative-activists-empower-investors-for-shareholder-meeting-votes.

152 "SEC Staff Legal Bulletin Makes Exclusion of Certain Shareholder Proposals More Challenging," *Cooley Alert*, November 17, 2021, https://www.cooley.com/news/insight/2021/2021-11-17-sec-staff-legal-bulletin.

153 Stone Washington, "SEC restores corporate control over ESG proposals," Competitive Enterprise Institute, Open Market (blog), March 21, 2025, https://cei.org/blog/sec-restores-corporate-control-over-esg-proposals/.

154 Elizabeth Nolan Brown, "Poll: People Like Amazon More Than Any Institution but the U.S. Military," *Reason*, July 6, 2021, https://reason.com/2021/07/06/poll-people-like-amazon-more-than-any-institution-but-the-u-s-military/.

155 Richard Florida, "The disturbing part about Amazon's HQ2 competition," CNN, January 21, 2018, https://www.cnn.com/2018/01/20/opinions/amazon-headquarters-competition-disturbing-richard-florida-opinion/index.html.

northern Virginia – and one smaller facility in Nashville.[156] Overall, the company was promised $2.2 billion in subsidies from the governments involved. As *Wired* reported in 2018, "The size of the deal quickly sparked outrage from both sides of the political spectrum," causing even political opponents like progressive Rep. Alexandria Ocasio-Cortez (D-NY), and then-Fox News host Tucker Carlson to strongly criticize the deal.[157] The unpopularity of the New York half of the deal, which occasioned "an unexpectedly fierce backlash," was a significant part of the company's decision to decline the offered subsidies.[158]

Responsible investing activism can help

While we emphasize here the role corporations need to play as part of a responsible business framework, they are only half of the equation. No company can legally dodge property taxes on a new facility unless there are government officials signing off on the deal. Because firms are profit-oriented, they get the lion's share of the blame for cronyism already, but none of these deals would exist without the connivance – and often initiation – of state and local politicians.

Voters and political donors need to prioritize their opposition to subsidies if candidates for office are going to take the issue seriously themselves. Anyone who opposes the abuse of targeted economic development subsidies should insist that anyone running for elected office at the state and local level disavow them as a tool of economic policy.

Challenging candidates for political office to make pre-election pledges on key issues has a long history in American politics, from abortion[159] to term limits.[160] Perhaps the most famous – and arguably most effective – has been the Taxpayer Protection Pledge, created and popularized by Americans for Tax Reform (ATR) and its longtime president Grover Norquist.[161] *Newsweek*'s Jonathan Alter wrote in 2006 that the ATR pledge "has transformed American politics," citing the example of George H.W. Bush who endorsed it while running successfully for president in 1988 and then failed to get re-elected in 1992 after infamously breaking the pledge.[162] The ATR Pledge has also been successful in part because it has not been promoted as a promise to a particular organization. As ABC News reported a decade ago: "…as Norquist puts it, signers are beholden to voters, not to him or his group."[163]

That said, previous efforts at eliminating cronyism have been limited in effectiveness because politicians themselves benefit from dispensing favors. Unilaterally foreswearing that ability is seen as a disadvantage politically. A joint agreement to eliminate such favors would put competing politicians back on a level playing field. Refusing to engage in taxpayer giveaways limits one's own power, but it can also limit one's opponent's power as well. Similarly, while supporting an end to subsidies means no more subsidies for one's own company, it also means no more subsidies for one's competitors. If the United States and the USSR were able to seal bilateral disarmament agreements on nuclear weapons in the 1980s, competing political parties (and states) should be able to shake hands on incentive elimination in the 21st century.[164]

State legislatures can also simply ban the practice of targeted economic development programs. Limitations

156 The northern Virginia and New York City locations were the subjects of the company's initial announcement in November 2018; the final resolution of the HQ2 search process involved the cancellation of the New York City project and the creation of a new operation center in Nashville, Tennessee. J. David Goodman, "Amazon Pulls Out of Planned New York City Headquarters," *The New York Times*, February 14, 2019, https://www.nytimes.com/2019/02/14/nyregion/amazon-hq2-queens.html.

157 Louise Matsakis, "Why Amazon's Search for a Second Headquarters Backfired," *Wired*, November 14, 2018, https://www.wired.com/story/amazon-hq2-search-backfired/.

158 J. David Goodman, "Amazon Pulls Out of Planned New York City Headquarters," *The New York Times*, February 14, 2019, https://www.nytimes.com/2019/02/14/nyregion/amazon-hq2-queens.html.

159 Daisy Contreras, "Pro-Choice Advocates Want Written Pledge From Gubernatorial Candidates," NPR Illinois, May 10, 2018, https://www.nprillinois.org/statehouse/2018-05-10/pro-choice-advocates-want-written-pledge-from-gubernatorial-candidates.

160 "Term Limits Pledge," U.S. Term Limits, accessed August 9, 2022, https://www.termlimits.com/pledge/.

161 "About the Pledge," Americans for Tax Reform, accessed August 9, 2022, https://www.atr.org/about-the-pledge/.

162 Jonathan Alter, "Political Pledges," *Huffington Post*, July 28, 2006, https://www.huffpost.com/entry/political-pledges_b_26031.

163 Chris Good, "Norquist's Tax Pledge: What It Is and How It Started," ABC News, November 26, 2012, https://abcnews.go.com/blogs/politics/2012/11/norquists-tax-pledge-what-it-is-and-how-it-started.

164 The US and the USSR signed the Intermediate-Range Nuclear Forces (INF) Treaty in 1987, which eliminated a class of nuclear weapons, namely ground-launched ballistic and cruise missiles with ranges between 500 and 5,500 kilometers. This treaty was the first to reduce the number of weapons in each country's nuclear stockpile and eliminate an entire class of weapons. President Ronald Reagan and Soviet General Secretary Mikhail Gorbachev signed the INF Treaty at the White House, marking a significant step towards reducing Cold War tensions. See memorandum from the Bureau of Arms Control, Verification, and Compliance, including treaty text, at "Treaty Between The United States Of America And The Union Of Soviet Socialist Republics On The Elimination Of Their Intermediate-Range And Shorter-Range Missiles (INF Treaty)," U.S Department of State, December 8, 1987, https://2009-2017.state.gov/t/avc/trty/102360.htm.

can be implemented directly on state agencies and existing public-private partnerships, and can be preempted in the case of city and county governments. Existing state constitutional amendments can be proposed as well. Despite virtually all states having some kind of gift clause or anti-private law provision in place currently, many state courts, including state supreme courts, have refused to enforce such provisions if politicians provide a fig leaf of rational-test justification.[165]

Many deals that 19th century anti-gift activists would no doubt have considered corrupt are allowed under an extremely relaxed standard of review. States with such court precedent absolutely can strengthen their existing constitutional provisions via amendment, creating an unmistakable "and we really mean it this time" effect of state policy.[166]

Unlikely allies, nonpartisan solutions

The perception that politicians and wealthy businesspeople are scratching each other's backs behind the scenes is not limited to a particular partisan worldview. Whether it was "The Swamp" that Donald Trump proposed to drain or the elite, controlling "1%" of Sen. Bernie Sanders (I-VT) and his fellow progressives, multiple strands of America's modern political tapestry converge in areas like economic development subsidies where business power and government power are being wielded for the benefit of a select few.

These concerns are not new. Similar sentiments have been popular for decades, including with other charismatic figures who first came to prominence outside the political mainstream, like Ross Perot and his 1992 and 1996 presidential campaigns.[167] But in the shifting power structures of the present day, opposition to corporate welfare and cronyism can unite unlikely allies across the political spectrum. Free-market analysts like the Cato Institute's Chris Edwards and Mercatus Center's Veronique de Rugy have conceded that left-wing critics like Sen. Elizabeth Warren (D-MA) "are partially right" when it comes to denouncing economic unfairness in the US because corruption and cronyism are, in fact, real problems; or that Rep. Alexandra Ocasio-Cortez (D-NY) "is mostly correct" in her opposition to subsidies for Amazon's HQ2 project.[168]

Democratic strategist Ruy Teixeira has long criticized perceived cronyism among Republicans, citing extensive polling data suggesting that American voters are particularly disaffected by such concerns.[169] Plenty of Republicans have also criticized large-scale industrial subsidies to the renewable energy industry, whether in the case of solar panel-maker Solyndra during the Obama administration,[170] or in legislation like the Inflation Reduction Act,[171] the cost of which could reach several trillion dollars by the middle of the century.[172]

These unlikely alliances can result in real-world coalitions for policy reform. Michigan offered a recent example of this when one of the state's most conservative Republican legislators and one of its most progressive Democrats co-sponsored legislation in 2025 to prohibit lawmakers or legislative staffers from signing nondisclosure agreements related to economic development subsidy deals.[173]

This is a rare corporate governance topic that is not embroiled in partisan politics, as research and polling regularly find that corporate welfare is an issue that

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165 Nita Ghel, Robin Currie, and Matthew D. Mitchell, "A Summary of the History and Effects of Anti-Aid Provisions in State Constitutions," Mercatus Center, December 16, 2019, https://www.mercatus.org/research/policy-briefs/summary-history-and-effects-anti-aid-provisions-state-constitutions.

166 Richard Morrison and Timothy Sandefur, "Episode 79: Protecting Taxpayers with Timothy Sandefur," *Free the Economy* podcast, Competitive Enterprise Institute, June 27, 2024, https://www.buzzsprout.com/2096503/15322135-protecting-taxpayers-with-timothy-sandefur.

167 Bill Stall, "Perot Lambastes the Two-Party System," *Los Angeles Times*, September 19, 1996, https://www.latimes.com/archives/la-xpm-1996-09-19-mn-45344-story.html.

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bridges traditional partisan divides. Rather than being a topic of right-versus-left or red-versus-blue, corporate subsidy programs are an area of the edges versus the middle. Almost unique among economic policy issues in the 21st century America, the goal of protecting taxpayers from the unethical collusion of government officials and corporate managers is ripe for bipartisan activism and success.

Conclusion

Government economic development programs are not fulfilling their stated goals, and their implementation often harms the very communities they are meant to serve. Moreover, the existing crony-ridden power structures that control these programs have no incentive to meaningfully reform themselves.

Something needs to change. If that change can't come from within the existing corporate and political worlds, then it must come from outside. Fortunately, there is an existing movement of investors, activists, and other stakeholders that is dedicated to working at the intersection of business and government to drive such change. Whether we call those people advocates for principled business, corporate social responsibility, or ESG, that infrastructure already exists.

Corporate welfare clearly can and should be a topic of critical importance for any affected stakeholder. By any meaningful definition, it is not socially responsible for businesses to divert public resources for private profit by seeking out and accepting targeted economic development subsidies from state and local governments. While municipal policymakers often make aggressive claims about the benefits communities are receiving in return, the evidence is clear that these deals play far too small a role in companies' site selection decisions to justify the very real seen and unseen costs they impose on the public.

Anyone who cares about minimizing the societal costs of doing business and maximizing the societal benefits should recognize economic development subsidies for what they are: a misuse of public resources for private benefit.

A few recommendations flow from this understanding. For maximum effectiveness, everyone involved in the world of business ethics and responsible investing should de-emphasize engagement with controversial political topics like net-zero climate goals and race-conscious workforce policies, and raise their level of engagement with anti-corruption pledges and taxpayer protection. Investors, ratings agencies, activists, and other stakeholders who maintain a broad range of ESG goals should at least add anti-cronyism to their list.

Similarly, companies that take social responsibility seriously should decline participation in subsidy programs and publicly encourage other companies to follow their example. The wider responsible-investing movement should take this opportunity to embrace opposition to corporate welfare as a high priority – one that is especially valuable because it is largely free from partisan rancor and obstruction.

Activists should pressure elected officials to commit to reforming or, preferably, ending existing economic development subsidy programs. State legislators, executive officers, and candidates for such positions should be expected to support long-term legislative and state constitutional reforms to ensure that targeted development deals are made a thing of the past. The views on this issue of potential state judges, whether elected or appointed, should also be known.

Finally, Americans across the political spectrum should advance their own self-interest and the best interests of their community by opposing economic development subsidies with their consumer power, voting, activism, and political contributions.

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