

Values Fund must deliver better

IPP Guest Opinion, Feb. 3, 2005 – Special to the Iowa City Press-Citizen, p7A

By Colin Gordon

Since the courts suspended its operation last year, the Grow Iowa Values Fund has occupied center stage in Iowa's ongoing economic development debate. The governor has made bankrolling the fund a top legislative priority. Republicans in the Statehouse are floating more expansive and expensive tax breaks as alternatives. And the Press-Citizen has weighed in with the editorial view ("Goal No. 1: Economic Development," Jan. 20) that the very future of the state rests on our ability and willingness to lure new jobs and investment with Values Fund money.

Unfortunately, the assumptions behind all of this enthusiasm simply do not add up. The Values Fund has not delivered as promised. Its benefits have been vastly overstated. And its costs (\$800 million, after all, is 20 times the amount being bandied about as this year's Band-Aid for higher education funding) have gone largely unexamined.

Let's start with the supposed ability of Values Fund awards to leverage new investments, new jobs and new tax revenues. The Press-Citizen, echoing the most optimistic projections of the Department of Economic Development, concludes that the Values Fund "has netted promises of \$2.2 billion in capital investment and 18,000 new jobs from companies." Aside from the willingness to tally up "promises" as if they represented real dollars and real workers, these numbers are ludicrously inflated.

It does not follow – just because a firm pockets money from the Values Fund – that the Fund can claim credit for all the jobs and investment that come afterward. We have no way of knowing whether Values Funds money actually attracts these firms. Certainly the academic research on this question is unequivocal: Firms make location decisions based on local suppliers, customers and workers. No one turns down subsidies or tax breaks being thrown at them, but these are rarely the keys to investment and location decisions.

The Values Fund has willfully confused job creation and job retention. The money is not, as the Press-Citizen assumes, "given to businesses that move to Iowa or expand here." It also can go to companies that don't leave. Consider the award of more than \$6 million to Lennox Industries in Marshalltown. The company will create no new jobs but has dropped talk of fleeing. No one knows how serious the company's relocation plans were. What we, the taxpayers of Iowa, get for our \$6 million is, well, nothing. The Values Fund Board totes another 1,000 jobs to its credit.

Promises aside, the Values Fund's job creation record is pretty dismal. Last February, for example, state officials announced a flurry of new awards totaling \$17 million. The jobs created with this money? 852. The cost per job? More than \$20,000.

What about the benefits? As the Press-Citizen writes, “We must ensure that businesses exist in the state to provide residents with good-paying jobs.” Yet, as the Iowa Policy Project detailed in a recent report (available at www.iowapolicyproject.org), the Values Fund does little to ensure that awardees actually create good jobs. In setting wage thresholds, the Department of Economic Development calculates an artificially low average wage for each county. It allows recipients to choose the lower of a county and regional average wage. And it only applies these wage targets to half of the jobs “created” by an award.

The result? In an already low-wage state, Values Fund awards might actually “bid down” local wages. However many new jobs are claimed, there is little to boast about when employers are pocketing Values Fund money at one door, while their workers (and their families) are qualifying for more state subsidies – Medicaid, hawk-I health insurance, reduced-fee school lunches – at another.

Finally, there is nothing to sustain the view, woven through the recent Press-Citizen editorial, that the real benefit of these subsidies lies in their “spillover” or “multiplier” effect: new tax revenues, new employment across the local economy, etc. But these spillovers work both ways: New plants and new workers require more public spending for roads, schools, water and sewer plants and public safety. In addition, according to The Associated Press, the nonpartisan Legislative Fiscal Bureau had done an analysis that showed incentives offered in the Wells Fargo and Trans Ova deals will cost more than the revenues they produce.

These issues might not be deal-breakers in the view of some, but it is the kind of information legislators and the public should have before making a decision on how best to proceed with a new Values Fund.

Reach Colin Gordon, a University of Iowa history professor and an Iowa Policy Project research associate, at ipp@Lcom.net. The Iowa Policy Project is a nonprofit and nonpartisan think tank based in Mount Vernon.