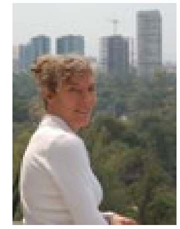
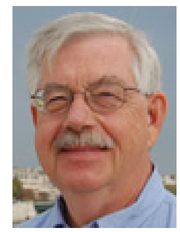
The Carrier deal: Trump has won a battle, but is losing the war

blogs.lse.ac.uk/usappblog/2016/12/14/the-carrier-deal-trump-has-won-a-battle-but-is-losing-the-war/

12/14/2016



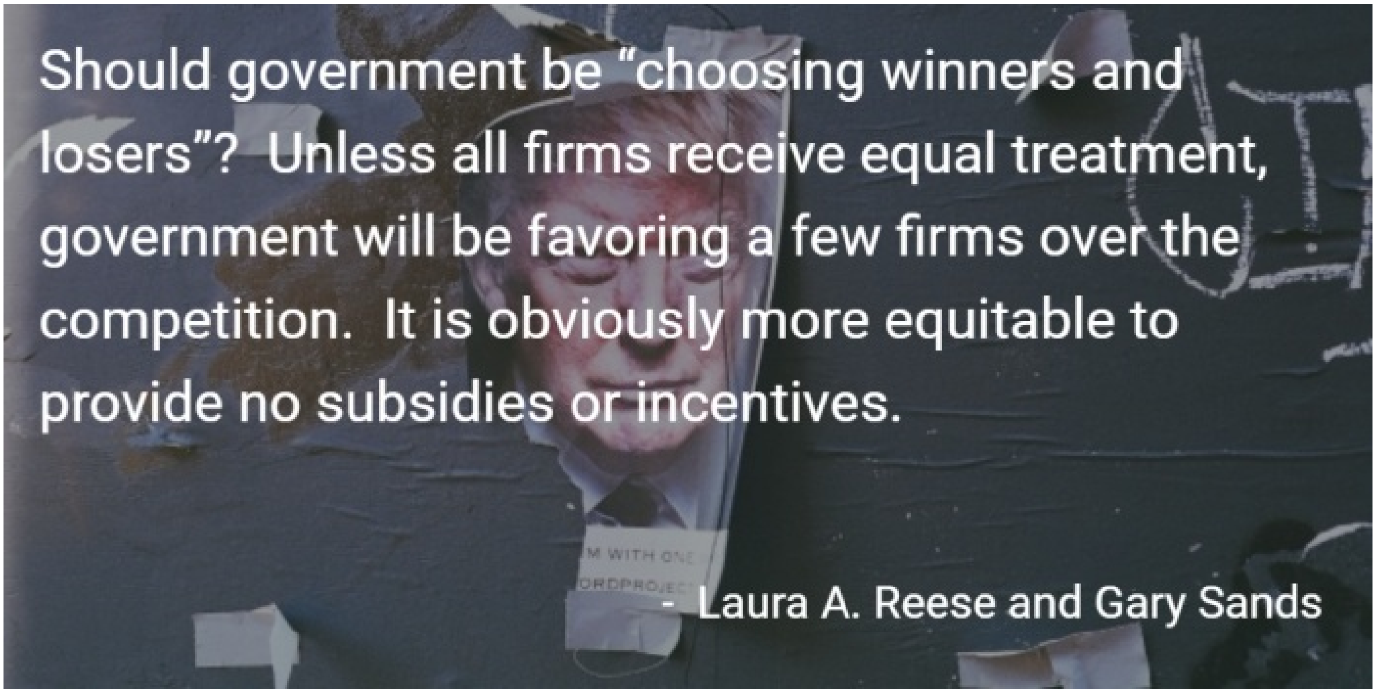
Last week, President-elect Donald Trump announced that a deal had been struck for the Carrier Corporation to keep about 1,000 manufacturing jobs in the US rather than move them to Mexico. **Laura A. Reese** *and* **Gary Sands** *write that the subsidy deal – despite the positive reaction – should not become a model for the Trump administration's jobs policies. Rather than choosing winners or losers, they argue, Trump should pursue greater investment in education, research, public services, and other policies which will drive long-term economic development.*



According to published reports, a pledge of $7 million in tax breaks has prevented the closing of the Carrier factory in Indianapolis which, without it would have resulted in the termination of a thousand manufacturing jobs. President-elect Donald Trump credits his personal intervention as key to the retention of these jobs. Trump has indicated that as President he will employ similar negotiation strategies to prevent the loss of other manufacturing jobs and even bring about the return of manufacturing jobs that have been relocated offshore.

For the most part, reaction to this deal has been positive. Major stakeholders – the company, the workers and local officials – have praised the deal. The State of Indiana, which is paying for the tax breaks, is a willing participant. But should this type of deal making become the cornerstone of America's jobs policies for the next administration? We would argue that the answer is "No" for several reasons.

First, there is the question of efficiency. Economic development incentives have existed in the United States for decades. While individual states point with pride to the investment and job totals that have resulted from tax abatements and other incentives, manufacturing's share of total employment has declined steadily since the middle of the 20th Century. Manufacturing represented 30 percent of American jobs in 1950; in 2012, they were less than ten percent of the total. Since 2000, the number of manufacturing jobs in the United States declined by almost five million (28 percent). Some of these jobs have been moved offshore; others have been lost to automation and increased productivity. It is questionable whether tax expenditures should be directed toward the, likely temporary, retention of 20th Century jobs. A long term strategy of investing in the creation of 21st Century jobs appears more prudent.



Efficiency is thus also a concern in the decisions about which firms should be provided with incentives. If incentives are used to prop up firms that are in industries that are in terminal decline or that continue to use outmoded production processes, any benefits are likely to be short lived.

Should government be “choosing winners and losers”? Unless all firms receive equal treatment, government will be favoring a few firms over the competition. It is obviously more equitable to provide no subsidies or incentives. A related concern is the technical ability of government to be able to accurately forecast these winners and losers particularly given that corporations tend to guard information related to profitability in particular locations, future investment plans, locational calculus and so on.

Even if subsidies are granted judiciously, this policy can be quite expensive. The tax breaks that Carrier will receive are roughly $7,000 for each job. While this is a substantial amount, it is by no means the most generous incentive package that has been put together to retain or attract jobs. Automobile manufacturers regularly benefit from incentive packages where the cost of each job exceeds $20,000. Chicago was able to attract the corporate offices of Boeing, and its 500 white-collar workers for $56 million worth of incentives, an average of $112,000 per job.

Based on decades of research on economic development incentives, it seems clear that the best industrial policies will incorporate the following key principles:

- Providing subsidies to preserve jobs is a Sisyphean task; there are simply not sufficient government funds to save all jobs.
- More often than not, incentives do not create new jobs; rather, they affect the location of already existing jobs.
- While the market is not perfect, political or bureaucratic choices of who should benefit from subsidies and incentives are a poor substitute for the market.
- The costs of incentives and subsidies inevitably fall on other firms and households, either through higher taxes or decreased services.

Of greatest concern is that many years of research has generally found that particularized tax incentives are simply ineffective in promoting economic growth. Rather, long term sustainable economic growth is fostered by investments in education, skill development, entrepreneurship, research and development, basic public services and amenities, immigrant attraction and settlement policies, and generalized quality of life. Tax expenditures to retain jobs will simply reduce the overall government revenue necessary to support these proven drivers of economic growth.

Featured image credit: Jake Cvnningham (Flickr, CC-BY-2.0)

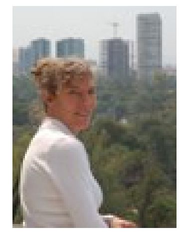
Please read our comments policy before commenting.

Note: This article gives the views of the authors, and not the position of USApp– American Politics and Policy, nor of the London School of Economics.

Shortened URL for this post: **http://bit.ly/2hNL1qk**

About the authors

Laura A. Reese – *Michigan State University*
Laura A. Reese is Professor of Political Science and Director of the Global Urban Studies Program at Michigan State University. Her main research and teaching areas are urban politics and public policy, economic development, and local governance and management in both Canada and the US.



Gary Sands – *Wayne State University*
Gary Sands is associate professor of Urban Planning at Wayne State University. He has worked extensively with community-based organizations, local governments and private developers on various development issues.