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The Gift that Keeps on Taking

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The acronym STAR sounds the name a hustler would give to a plan to trick gullible parents into paying for worthless modeling lessons for their kids. It's not. It stands for Sales Tax And Revenue bonds, the name a hustler has given to a plan to trick gullible lawmakers into giving away state tax revenues in exchange for nothing of value to the state. It worked. Both houses of the Illinois General Assembly have approved a scheme to rebate to the developer the future state sales tax revenues from a retail development project in the Metro East community of Glen Carbon to pay for bonds to finance the project.

Where stores are located can be very important to the profits of local developers and store owners, and to jobs and tax revenues in specific towns or neighborhoods, but it means nothing to the overall level of business activity in the state. Why no benefit to the state from subsidizing retail investment? Because retail sales is overwhelmingly a zero sum game. One specific locale can gain some jobs and sales revenue from a new store. But at another locale, there will be corresponding losses. Think of it. When the attractive new mall opened up, did you spend more of your total income on retail goods or just spend the same amount at a different location? Shopping places can move around, but total consumption depends on household incomes.

STAR gives away the sales tax gains in the favored location and the state budget then takes the losses in would-be sales from somewhere else. In many ways, STAR is reminiscent of TIF, tax increment financing, where future property tax revenue is assigned to pay for local economic development. Uncertainty or confusion about costs and benefits is the political lifeblood of TIF. It has been easy for TIF proponents to conceal or underestimate the true cost of giving away future tax revenues while pointing the new development. But how much development would have happened without the subsidy? How much would-be development nearby was displaced? How much did other taxes have to go up to pay for carving out revenue to the TIF? If the displaced development is in a different municipality, should the state be encouraging this kind of zero sum competition? Worse, STAR is reminiscent of Illinois' ill fated experiment with sales tax TIFs in the mid 1980s, a policy disaster that ended up costing the state an enormous amount in transfers to municipalities with already strong retail sales, but with little discernable benefit to places most in need of economic development.

When some parents are gulled into spending on worthless modeling lessons for their oh-so-cute kids, it is sad for us but it is their money. When our elected representatives are gulled into spending on economic development schemes that have no net benefit, it sad for the state and it is our money they are giving away.

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