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A Chance to Get Economic Incentives Right

By Peter Kasabach

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If you give them tax credits, they will come. Or so goes the thinking behind New Jersey's $7 billion incentive package offered to Amazon this fall. If Amazon agrees to locate its HQ2 in the Garden State, the deal would be the second largest economic development incentive package ever provided to a U.S. company. Offered under the Grow NJ program, deals like the Amazon package traditionally use tax incentives to attract businesses to New Jersey's identified growth areas, including its depressed cities, to stimulate growth. However, a bill being considered in the waning days of this legislative session would, among other things, change the current program stipulations to allow Amazon to set up shop anywhere in the state, including a cornfield.

Even without the additional concessions offered to Amazon, the state's incentive program is expensive and lacking in return on investment. With renewed attention and interest in New Jersey's economic incentive programs and a new governor taking charge, it is time to rethink the goals of the incentive program and make some changes. Here are four ways to get started.

Offer the right-size economic incentives … New Jersey currently pays far more in business incentives than our peer states, yet we have lagged in new job creation. According to a recent report by McKinsey & Company, New Jersey pays more than five times as much as our neighbors for every dollar of investment it attracts and for every job created or retained. Between 2010 and 2016, states paid about $69,000 on average per job attracted through incentives like tax credits. New Jersey, meanwhile, pays as much as $162,000 per job.

… in the right areas. The Amazon request for proposals made it clear that economic incentives were the icing on the cake, not the cake itself. Amazon's top priorities, as with most large and growing companies, is to locate to places where their Millennial workforce wants to be. As we work to attract more young companies like Amazon, we should ensure our incentive programs provide the largest incentives for urban emerging markets. It is no secret that New Jersey is losing its Millennials—a trend that will have a growing negative effect on New Jersey's economy if it continues. A recent report by New Jersey Future found that Millennials prefer to find work in walkable communities where they can also live and play, rather than in the traditional suburban office park. Unfortunately, many of the places in New Jersey with these attributes have suffered from years of regional neglect and under-investment. State incentive programs can help companies that are seeking these locations serve as the catalysts for these urban areas to become self-sufficient drivers of our economy.

Add features that work for high-growth and start-up companies. According to the McKinsey report, more than 80 percent of New Jersey's incentive deals are geared toward older, established companies, which traditionally invest less capital in operations and create fewer jobs than young, fast-growing companies. The current program can be modified to meet the needs of fast-growing companies, including reducing the time a company must stay in the same building and providing development incentives for creating start-up space, not just incentives to tenants for occupying the space long-term.

Complement incentives with place-based infrastructure and housing investments. As the Amazon process has highlighted, New Jersey can compete better with national and global locations by providing not just financial incentives, but also the kind of places companies and their workers want to be. By adding a strong place-based component to our economic incentive program, the state and host communities can make comprehensive investments that will make those places more appealing for economic investment. For example, improvements to transit service, downtown public spaces, and retail areas can make a place safer and more attractive for investment.

New Jersey is an expensive place to live, which is another contributing factor to our Millennial flight. Companies benefiting from our incentive programs could work with the state to make housing more affordable for workers by providing benefits to employees such as help with down payments, education and counseling, and rental assistance. We should be using incentives to attract businesses that will form long-term partnerships with the state in making investments in infrastructure and the communities in which they locate.

Monitor and measure results. We should be monitoring and measuring all of our economic development programs to ensure they provide the anticipated return on taxpayer investment. According to McKinsey, Virginia is a leader among states in getting the biggest bang for its economic-development buck because it monitors and measures its incentive programs carefully and holds its corporate incentive recipients accountable for their commitments.

In short, New Jersey simply cannot afford to continue investing as we are. By offering appropriately sized incentives for young, fast-growing companies who want to make long-term investments in our urban communities, New Jersey stands to improve its job-growth rate, keep its Millennials, and generate the kind of places that both employers and workers are seeking. That would be a much greater return on our investment than we're currently seeing.

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