Study: State subsidies ignore the real job creators

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Small business owners who believe they are being shortchanged by state assistance programs are not just imagining things, according to a new study that says as much as 96 percent of state subsidy dollars are going to big companies.

The study released Tuesday by the non-partisan research group Good Jobs First analyzed more than 4,200 business assistance programs in 14 states, worth more than $3.2 billion. On average, the report says, 90 percent of the money went to firms with 100 or more employees, or ten or more locations. That is despite U.S. Small Business Administration statistics showing small businesses account for nearly half the nation's private sector Gross Domestic Product, and almost two-thirds of job creation.

"This is an empirical foundation for those who have argued that strengthening small business is the smarter way to go," Good Jobs First Executive Director Greg LeRoy told CNBC.

The group has been critical of state subsidy programs in the past, and last month it released results of a survey showing small business leaders overwhelmingly believe that the deals are ineffective at spurring economic growth.

The latest study examined state programs that in theory are supposed to be open to businesses of all sizes. In Indiana, for example, the HoosierBusiness Investment Tax Credit is designed to "support jobs creation, capital investment, and to improve the standard of living for Indiana residents," according to the state's economic development corporation.

But Good Jobs First found that 96 percent of the more than $80 million in credits awarded between 2010 and 2014 went to big companies.

In Nevada, 96 percent of the personal property tax dollars forgiven between 2007 and 2011 went to big firms.

Even in the most equitable subsidy program measured, the Wisconsin Economic DevelopmentTax Credit, 80 percent of the more than $132 million awarded between 2010 and 2014 went to big businesses, according to the Good Jobs First study.

One small business organization calls the study's findings "stunning."

"We know from extensive research that small businesses, especially new and growing firms, often deliver out-sized benefits to local economies, yet state governments are putting these businesses at a competitive disadvantage by denying them incentives while steering billions of dollars in public subsidies to their big corporate competitors," said Stacy Mitchell of Advocates for Independent Business, which claims to represent 150,000 small businesses.

LeRoy says the study should give small business groups "a strong case for change."

But an international consultant who helps big companies secure the big subsidies says states need to think long and hard before they start to tinker with their formulas.

"We can't afford to demonize big business,"said John Boyd, principal of The Boyd Co in Princeton, New Jersey.

Small businesses may account for the most job creation, but "the reality is that small business also loses the most jobs," he said in an interview.

Boyd says subsidies have become a"necessary evil" in the site selection business, especially in a global economy where companies can set up shop anywhere in the world. He notes that most subsidy programs now have "clawback" provisions if the company does not create the jobs it promised. And even if small businesses are not getting direct assistance,they do benefit indirectly.

"There is a public good," he said.

That is because the deals often involve infrastructure improvements and workforce training that benefit the entire community, he said. And a big company hiring more workers means more customers for small businesses.

"Small businesses should welcome politicians doing what it takes to leverage their big employers," Boyd said.

But the Good Jobs First study argues those politicians and policymakers should instead refocus their efforts on measures that are more helpful to small businesses, like expanding access to credit. The study suggests paying for that by excluding big companies from state incentive programs.

"One could call it means testing corporate welfare," the study says.

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