



The Daily Dish

“Winning” the HQ2 Sweepstakes

DOUGLAS HOLTZ-EAKIN | NOVEMBER 15, 2018

Eakinomics: “Winning” the HQ2 Sweepstakes

In a surprising diversion from politics, the talk of the town for the last few days has centered around Amazon’s selection of New York City and the Crystal City neighborhood of Arlington, Virginia as the “winners” of its HQ2 (2nd headquarters) search. According to [The Wall Street Journal](#), the two locations offered Amazon roughly \$5.5 billion in incentives. In particular, “Virginia’s final incentive package appears to total more than \$2.5 billion, including almost \$1.9 billion from the state and almost \$800 million from local governments, according to materials provided by the state.”

Let me stipulate at the outset that only the sketchiest of details are available. But even given what is in the public domain, this is an incredibly bad idea.

Let’s run the numbers. The state of Virginia is offering \$1.9 billion (of my tax dollars and perhaps yours) as incentives to land 25,000 jobs. That’s \$76,000 per job. They better be GREAT jobs. Of course, I worry too much. New York is paying even more per job and *WSJ* quotes New York Governor Andrew Cuomo’s take on the New York City package: “‘For every dollar we invest, we’re going to get back about \$9....To find the money that we need to invest in subways, to invest in schools, et cetera, this is a big moneymaker for us. It costs us nothing—nada, niente, goose egg.” Nada, niente, goose egg. Sounds promising. Let’s see. In September 2018, the state of Virginia had about 4 million jobs and in fiscal 2018 it collected \$19.3 billion in sales, personal income, corporate income, and miscellaneous revenue. That’s about \$4,800 in revenue per job. So, for the \$76,000 in pocket change, the state will collect \$4,800 each year. Ignoring interest costs, that means that part of the deal breaks even in perhaps 15 years.

Meanwhile the localities are tossing in another \$800 million for those precious 25,000 jobs — a mere \$32,000 per job — bringing the all-in cost to \$100,000 per job. Nada, niente, goose egg.

Of course, this is just the tip of the iceberg. Offsetting the payments to Amazon means that other taxes will have to be higher. This diminishes the overall business climate. As a general matter, this is what is wrong with targeted incentives. It makes more sense to keep taxes low and broad-based service at high quality to attract or develop a broad portfolio of businesses. The hand-it-to-Amazon strategy diminishes the overall vitality and bets the ranch on one sector or company. It’s a bad strategy.

Finally, where exactly is this money coming from? And how can this “deal” be struck without a single voter in Virginia being consulted? It is a unique combination of bad strategy and bad governance. To top it off, Amazon has decided to rename Crystal City as National Landing. In the old days, a company had to pay to get naming rights. Sigh.

As the Mercatus Center [put it](#), perhaps in this case, “the losers are the winners.”