ENTREPRENEURIAL ACTIVITY IN ILLINOIS: Investigating the Impact of Tax Incentives Developmental Programs

by Benjamin VanMetre
Entrepreneurial Activity in Illinois: Investigating the Impact of Tax Incentive Development Programs

Mercatus Policy Essay

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Abstract:

The state of Illinois is currently experiencing business and resident out-migration, a trend that suggests the state has failed to create an environment in which it is attractive for individuals to live and do business. In attempts to curb this out-migration, politicians and policy analysts have continued to add to Illinois’s portfolio of tax-based development programs. Although these programs have become increasingly popular in the policy arena, the economics literature suggests that they generally fail to achieve their goals and often end up creating additional barriers to entrepreneurial activity. The analysis in this paper first examines the link between public policy and entrepreneurship on a conceptual level. Then, after broadly examining each of Illinois’s current tax incentive development programs, the analysis shifts to a case study approach.

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Introduction

Illinois has become the quintessential example of a failing state. With a rapidly increasing budget deficit, a pension system that is slated to run out of assets within the next decade, and a series of budgetary gimmicks that foster fiscal irresponsibility, reaching a fiscal breaking point is seemingly inevitable (Norcross & VanMetre, 2011). The state’s legislature has recognized that Illinois is on the brink of insolvency and has made attempts to constrain state spending, increase transparency, and promote economic growth and job creation. However, a recent analysis of the constitutional and statutory rules that are inhibiting Illinois’s economic recovery reveals that these reforms are unlikely to work, since they fail to adequately address the underlying institutional causes of the state’s fiscal crisis (Norcross & VanMetre, 2011).

Illinois’s fiscal problems have had detrimental effects on the state’s business climate. In order to make up for the state’s poor business climate, politicians and policy analysts have continued to add to Illinois’s portfolio of tax-based development programs, a move that has become increasingly popular in the policy arena. However, the fact that Illinois’s business climate ranks lower than those of its neighbors leads one to question the effectiveness of these programs. Illinois consistently falls in the bottom half of the many rankings of state business climate (Table 1). Although the utility of these measures has been questioned in the empirical literature (Kolko, Neumark, & Mejia, 2011; VanMetre & Hall, 2011), it is generally agreed that the indices are based on useful economic information.
Table 1: Business Climate Indices

<table>
<thead>
<tr>
<th>Index Name</th>
<th>Produced By</th>
<th>Year</th>
<th>IL Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Business Tax Climate Index</td>
<td>The Tax Foundation</td>
<td>2011</td>
<td>23</td>
</tr>
<tr>
<td>State Economic Performance</td>
<td>American Legislative Exchange Council</td>
<td>2011</td>
<td>48</td>
</tr>
<tr>
<td>State Economic Outlook</td>
<td>American Legislative Exchange Council</td>
<td>2011</td>
<td>44</td>
</tr>
<tr>
<td>State Competitiveness Report</td>
<td>Beacon Hill Institute</td>
<td>2010</td>
<td>34</td>
</tr>
<tr>
<td>Small Business Survival Index</td>
<td>Small Business and Entrepreneurship Council</td>
<td>2010</td>
<td>28</td>
</tr>
<tr>
<td>Best and Worst State Ranks</td>
<td>Chief Executive Magazine</td>
<td>2010</td>
<td>46</td>
</tr>
<tr>
<td>Best States for Business and Careers</td>
<td>Forbes</td>
<td>2009</td>
<td>37</td>
</tr>
<tr>
<td>Development Report Card for the States</td>
<td>Corporation for Enterprise Development</td>
<td>2007</td>
<td>37</td>
</tr>
</tbody>
</table>

The indices in Table 1 suggest that Illinois’s institutional environment is relatively weak with regard to its ability to foster and promote business activity. However, a more robust measure of Illinois’s business climate is the number of entrepreneurs that choose to do business in the state. The Kauffman Index of Entrepreneurial Activity (KIEA) provides the raw number of entrepreneurs per 100,000 people for each state. More specifically, the KIEA uses the Current Population Survey to measure the monthly rate of business creation at the individual owner level, and reports the percentage of non-business-owning adults who start a business with more than 15 hours worked per week. As Figure 1 shows, Illinois has consistently remained below average in its number of entrepreneurs. 

It is also useful, however, to narrow this comparison by examining Illinois’s levels of entrepreneurial activity relative to those of its neighbors; that is, relative to those of the other states in the Midwest region.²

² According to the U.S. Census Bureau, the Midwest region consists of Indiana, Illinois, Iowa, Michigan, Missouri, Wisconsin, Ohio, Minnesota, Kansas, Nebraska, North Dakota, and South Dakota.
As Figure 2 shows, Illinois experiences less entrepreneurial activity than its neighboring states. Although Illinois comes close to, and at times exceeds, the Midwest average, the state generally falls below average in its number of entrepreneurs relative to the rest of the Midwest.

Illinois’s poor business climate is coupled with another alarming trend - the out-migration of residents and businesses. Tiebout (1956) introduced the idea that when the tax-service mix does not reflect individual demands, people vote with their feet. In Tiebout’s model, local governments provide different packages of public goods and individuals sort themselves according to their preferred bundle. In other words, people move to the community that best represents their optimal demand for public goods and services.

There are many reasons that people choose to leave a community, city, or state, but when total net migration is examined it is clear that public policy has a significant impact on where people choose to live (Moody, 2011). As a result, the net number of people entering or leaving a city or state can be used as a proxy for how accepting the general population is of the various institutional arrangements in place. In the case of Illinois, net out-migration suggests that people are unsatisfied with the state’s institutions compared to their options in other states. According to a report by the Illinois Policy Institute (2011), Illinois lost a net of 1,227,347 residents between 1991 and 2009. Moreover, between 1995 and 2007, Illinois lost $163 billion in net income and $16.9 billion in state and local taxes as a result of the out-migration (Moody, 2011). Perhaps the most telling case of Illinoisans voting with their feet can be seen in Chicago, a city that had fewer residents in 2010 than it did in 1920 (U.S. Census, 2010).

It’s not only Illinois’s residents that have been voting with their feet. A growing number of businesses have also threatened to leave the state as a result of the recent increase in its
corporate income tax rate and the nearing expiration of various tax incentive packages. This situation will likely worsen, considering that certain tax breaks are set to expire for more than 107 companies in the next three years (Mercer, 2011).

The following analysis in this policy essay examines whether tax incentive development programs actually promote entrepreneurial activity in Illinois. The first chapter builds a conceptual framework for examining the role that public policy can play in fostering entrepreneurial activity. The second chapter provides an assessment of Illinois’s current economic development portfolio. The third and fourth chapters provide a detailed case study of one of Illinois’s current programs, and the final chapter concludes.
Chapter 1:
Entrepreneurship Policy in the States

The creation of knowledge is a precondition for prosperity. In a market economy the creation and implementation of socially productive ideas allows individuals to reap the rewards of their discoveries, while the implementation of unproductive ideas causes individuals to suffer a loss (Smith, 1776). At the heart of this process, being guided by the invisible hand of the market and learning through the system of profit and loss, is the entrepreneur (Schumpeter, 1960; Kirzner, 1984). Institutional environments that give entrepreneurs the freedom to try new ideas and learn from their mistakes experience greater levels of entrepreneurial activity and economic growth than do those that restrict these freedoms (Kreft & Sobel, 2005; Campbell & Rogers, 2007; Hall & Sobel, 2008). Politicians and lawmakers are starting to recognize this causal link between entrepreneurship and economic growth and have taken on the role of building policy environments that aim to promote the development of productive ideas through entrepreneurial activity. More specifically, the increasing awareness of the power of entrepreneurial activity has led the political community to create an important realm of policy - that is, entrepreneurship policy. Although entrepreneurship policy is not a new idea, it is something that continues to be gravely misunderstood.

Entrepreneurship policy is a broad concept that encompasses a wide variety of policy instruments. This type of policy covers everything from low-technology to high-technology economic activity and is often implemented via regulatory policy, economic development efforts, education policy, and poverty alleviation (Hart, 2003). Entrepreneurship policy is utilized by several levels of government and has been executed at both macroeconomic and
microeconomic levels. A diverse group of industries are affected and it applies to a variety of community levels, from cities and municipalities to states and regions. In order to cover each level of the entrepreneurial process, politicians have created programs that teach individuals about entrepreneurship, provide monetary incentives to consider entrepreneurial ventures, finance business start-ups, and provide financial assistance to businesses considering expansion or relocation.

Although each type of entrepreneurship policy certainly warrants detailed analysis, the area of interest in this policy essay is the type of policy that attempts to foster entrepreneurial activity through tax incentive programs. This chapter provides a review of modern-day entrepreneurship policy and outlines its strengths and weaknesses.

1.1 The Origins of Entrepreneurship Policy

Economists and governments around the world have spent hundreds of years searching for policies that foster economic progress. During the early 18th century, the British government implemented the Corn Laws with the intention of protecting and enhancing its farming industry. At the same time, David Ricardo was advocating for free trade (Holcombe, 2007). The early 20th century progressive era led to the development of antitrust laws, the regulation of food and drugs, and the adoption of central banking in the United States (Holcombe, 2007). Franklin Roosevelt continued these efforts in the 1930s with the New Deal programs, and governments in the mid- to late 20th century further developed the debate over whether central planning or laissez-faire capitalism is the means to achieve economic progress.

A particular type of policy that continued to appear in the midst of the debates and changing policy environment of the 19th and early 20th centuries was government programs that
intended to shape the business environment of the United States. These programs were generally implemented at the federal level, and the policies often focused on specific industries, big businesses, or both. The emphasis on large industry during this time period was a result of the greater efficiency realized through concentrated mass production, a benefit that became clearer throughout the industrial revolution. As the federal government placed a growing emphasis on large-scale production, however, a debate arose over the potential negative impact that this type of production had on small businesses. There was a concern that mass production would crowd out other types of production and ultimately make small business irrelevant.

In response, a new wave of public policy efforts surfaced that focused on protecting and preserving small and medium-sized enterprises (SMEs). The earliest example was the approval of the Sherman Antitrust Act in 1890, which was sparked by fear that large firms were dominating the economy (Hart, 2003). Congress later passed the Robinson-Patman Act in 1936 in order to protect smaller firms from predatory pricing. The efforts to protect SMEs grew as Congress approved the Small Business Act of July 10, 1953, which authorized the creation of the Small Business Administration and mandated the protection of small businesses (Audretsch, 2005). These policy changes, therefore, attempted to promote SMEs by harnessing the market power of large corporations via regulation, antitrust law and government ownership, thus restricting the freedom of these larger firms to contract and operate (Gilbert, Audretsch, & McDougall, 2004).

An essential component of 20th century SME policy was its focus on the existing stock of enterprises. During the late 20th century, however, the policy environment transformed once again and new policy initiatives sought to foster the start-up and growth of new firms rather than protecting the existing firms (Gilbert, Audretsch, & McDougall, 2004). Specifically, during the
1980s policy makers had become interested in fostering economic progress by promoting entrepreneurship via state and local policies rather than federal programs. The emphasis placed on firm start-ups represents an important change in the means by which public policy was used to achieve economic development. It represents a shift away from policy focused on organizational units, and toward policy intended to foster economic change and progress. An example of the growing role of entrepreneurship in public policy can be seen in the fact that in 2001 the Small Business Committee became the Senate Committee on Small Business and Entrepreneurship (Von Bargen, Freedman, & Pages, 2003). Additionally, roughly 40 governors mentioned some form of entrepreneurship policy during their State of the State addresses in 2007 (Hart, 2008). The new focus on entrepreneurship and the process of change, coupled with the move toward policy decentralization, was essentially the foundation of modern state and local entrepreneurship policy. While these state-based programs are a popular policy tool today, their effectiveness is still debated in both the public arena and academia.

Before reviewing the current state of entrepreneurship policy, it is important to briefly introduce an issue concerning the definition of entrepreneurship. Although the definitions of entrepreneurship that are identified in the economics literature are certainly useful, they differ from the definitions that are often used among politicians and lawmakers when developing entrepreneurship policy. Specifically, in the literature on tax incentives, business start-ups and expansions are seen as the distinguishing elements of entrepreneurship. In other words,

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3 Before claiming that a policy effectively fosters entrepreneurial activity, the policy maker must have a definition for entrepreneurship. The definition of this term is, of course, a source of debate both in the public arena and in academia. In the economics literature, it has been argued that entrepreneurial activity is an equilibrating component of the market process (Kirzner, 1984), as well as a disequilibrating component (Schumpeter, 1950). The type of individuals that are considered entrepreneurs has expanded from the individual acting man in the market (Mises, 1949) to employees, managers, and members of the board of directors (Schumpeter, 2000). Although entrepreneurial innovation is generally seen as a productive aspect of the market economy, it has also been made clear that entrepreneurship can be unproductive and destructive as well (Baumol, 1990).
entrepreneurial activity in entrepreneurship policy is synonymous with business activity. Instead of making an argument for or against this definition of entrepreneurship, the initial stage of the subsequent analysis will take this definition as given and examine the effectiveness of public policy in fostering entrepreneurship as business activity.

1.2 Modern Entrepreneurship Policy

Modern state and local entrepreneurship programs have taken two distinct paths. Programs that take the first path have continued to embrace a more traditional approach, emphasizing the role of larger firms by providing sizeable one-time subsidies in order to convince individual firms to relocate to or expand in a specific state. Those that use the second path, however, have taken a different approach. States across the U.S., in attempts to transform themselves into more attractive places to do business, have created a range of tax incentive development programs that each offer a unique set of incentives structured to foster entrepreneurial activity. At face, both types of programs have the potential to enhance a state’s business climate and foster entrepreneurship. However, there are concerning deficiencies in their design and implementation that negatively impact their effectiveness.

*Industrial Recruitment*

The provision of large incentive packages composed of direct subsidies and tax breaks, often referred to as *industrial recruitment* or *smokestack chasing*, has been a popular method among states seeking to attract a specific businesses or organizations. This type of policy developed during the 19th century, as manufacturing firms in northern states began relocating to

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4 It’s important to note that these two types of tax incentive–based entrepreneurship policies are not mutually exclusive: some policies do have characteristics of both.
southern states. In addition to weaker unions and looser regulations, many southern states had begun offering monetary incentives in attempts to make their states more appealing places to do business (Hart, 2008). In response, a growing number of states began providing large relocation-based subsidies, along with additional monetary incentives. In 1985, for example, six states were competing to be the location of a Diamond-Starr Motors plant, a competition that Illinois managed to win by providing tax-based subsides equaling $243 million (McCourt, LeRoy, & Mattera, 2003). A similar approach was taken in the 1993 battle for the Mercedes sports utility vehicle plant, when Alabama outbid 34 states by providing the auto plant with an inventive package totaling $300 million (Fredriksson, List, & Millimet, 2003).

There is, however, a fundamental flaw in the industrial recruitment–style policy approach. As Turner (2003) rightly argues, states generally lack knowledge about how willing a business is to move, how large the subsidy needs to be, and how much tax revenue the relocation will create. As Gabe and Kraybill (2002) write, “Incentive negotiations are characterized by imperfect information, because establishments have private information unknown to the government about their opportunities to relocate elsewhere” (p. 705). This necessarily means that a state cannot conduct an accurate cost-benefit analysis when creating the subsidy and thus, by definition, cannot make an efficient policy decision in this situation. Ultimately, this results in a prisoner’s dilemma: states overbid for firms that end up bringing fewer jobs and less tax revenue than planned (Turner, 2003). The industrial recruitment process, therefore, generally ends up being a negative-sum game.

If industrial recruitment policies fail to foster entrepreneurship and have negative effects on a state’s economy, why are they still a popular policy tool among state politicians? The likely answer is that they are politically beneficial and relatively easy to get through the legislature. To
politicians, successfully convincing a firm to relocate to their state is associated with credit claiming. In other words, successful industrial recruitment allows state politicians to directly claim credit for fostering business activity and creating jobs. Turner (2003) finds empirical evidence, however, suggesting that successful industrial recruitment not only fails to increase electoral support for the politician but, in fact, the opposite occurs—the more firms a governor successfully recruits, the fewer votes he or she receives in the next election. Industrial recruitment, therefore, contains significant flaws not only in its implementation and application, but also in its theoretical support.

Despite the issues with industrial recruitment programs, politicians will likely continue implementing this type of policy as long as they believe the political benefits outweigh any potential economic loss. The fact that industrial recruitment will continue to be popular tool among policy makers warrants further research examining potential avenues for enhancing the effectiveness of this approach. This is, however, not the intent of the analysis in this policy essay. The particular type of public policy I am concerned with is the aforementioned “second path”: that is, entrepreneurship policy that focuses on modifying a state’s tax structure via tax incentive development programs. The purpose of focusing on this type of policy is threefold: (1) the use of tax incentive–based entrepreneurship policy has been growing rapidly since the 1980s and the literature assessing the impact of these programs has been expanding, (2) the political incentives surrounding these programs raise some interesting questions regarding the creation and implementation of these programs, and (3) the effectiveness of these types of programs is being called into question as state and local government spending has become an increasing area of concern for average citizens and policy makers alike.
Tax Incentive Programs

Tax incentive–based entrepreneurship programs have taken many forms across the United States. Some programs appear in many states with little variation, and others have been uniquely developed for characteristics that are specific to a certain state. In general, however, there are three broad categories that most state and local tax incentive programs fit into: (1) spatially targeted incentives, which designate a specific zone or district and provide a series of incentives intended to revitalize economic activity in that area, (2) incentives provided for a specific type of firm, which are designed to attract a particular type of business (i.e., the film industry or family-owned businesses), and (3) incentives provided for a specific type of investment activity, which provide monetary support for private-sector individuals who are directly investing in business start-ups or expansions.

Each state generally creates its own development portfolio that contains one or more of each of the three types of tax incentive programs, many of which likely impact state and local economic growth and development in some regard. However, their net impact is often unknown and it is not clear whether these policies effectively foster entrepreneurial activity or enhance a state’s business climate. The following discussion outlines some general issues that these programs face and then provides a discussion of some important issues surrounding the individual programs and why some can be expected to be more effective than others.

At First Glance

While the literature on the effectiveness of tax incentive and other similar economic development programs is growing, the conclusions results are still quite mixed. Advocates of these programs argue that, although the effect of tax incentives is relatively small, they do have a
positive impact on a state’s economy (Kayne, 1999). More recently, Bruce and Deskins (2010) find that states that offer a greater number of tax incentives also experience higher rates of entrepreneurial activity. The authors further argue that tax incentive programs are successful because they reduce the entrepreneurial tax burden, thus leading to more entrepreneurship. Hart (2008) comes to the conclusion that, at a minimum, entrepreneurial policy strategies are typically less expensive and do less harm than industrial recruitment strategies.

There are, however, just as many arguments against state-based entrepreneurship policy. Buss (2001), for example, notes that few states know exactly how much they spend on these types of programs. Gabe and Kraybill (2002) conduct a valuable in-depth analysis of the tax incentive programs offered in Ohio, and find not only that these programs lead to artificial overestimation of employment growth, but also that firms receiving the incentives, on average, experienced a decrease of about 10.5 jobs per establishment. Additionally, the authors find that tax incentives are related to firm expansions that are roughly 20 percent smaller than they would have been if the incentives had not been available. Similarly, in an analysis of one of Michigan’s tax incentive programs, Hicks and LaFaive (2011) find that the impact of the program was “unambiguously nonpostitive” (p. 200). The authors find that not only did the program fail to achieve its goal, but the tax credit resulted in a decrease in wages for some workers. This type of research pointing to the ineffectiveness of tax incentive programs has been the root of many reform efforts. In fact, over the years reformers have tried to ban state, local, and federal tax incentives, and others have attempted to render tax incentives unconstitutional (Buss, 2001). These efforts succeeded in Minnesota, for example, when the legislature abolished several economic development programs that had provided business financing (Dewar, 1998).
General Issues Faced by Tax Incentive Programs

The general hurdles that tax incentive programs face are rooted in economic theory concerning the extent to which government can or should influence an economy. Fundamentally, tax-based entrepreneurship policies are plans created by public-sector officials that are designed to generate or foster private-sector economic activity. In other words, these programs are public-sector attempts to develop an incentive structure that generates more entrepreneurial activity than currently exists. Whether government officials have the knowledge necessary to effectively achieve this goal, however, is a question that has long been debated in the economic literature.

In *The Use of Knowledge in Society*, Hayek (1945) describes the role that knowledge plays in the coordination of economic and social society by stating:

The peculiar character of the problem of rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form, but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess… Fundamentally, in a system where the knowledge of relevant facts is dispersed among many people, prices can act to coordinate the separate actions of different people in the same way as subjective values help the individual coordinate the parts of his plan (p. 519–526).

Simply put, prices contain the relevant information and feedback mechanisms necessary for rational economic calculation and coordination. Rational economic order in a society is dependent on data that are dispersed among all actors in the economy. The arguments presented by Hayek (1945) and Mises (1949) make clear that public-sector activity inevitably faces a knowledge problem, as it is unable to utilize and respond to information provided by the profit and loss that is allowed though the price system. As Boettke (1998) writes, “The knowledge required for economic calculation is available only within the market process itself” and thus it is
the “contextual knowledge of the market which enables economic actors to select out from among the numerous array of technologically feasible production projects those which are economically viable—in other words to engage in rational economic calculation” (p. 145). Therefore, the market process overcomes the knowledge problem because it allows private-sector actors to access dispersed knowledge through prices, and teaches them how to use it through a system of profit and loss, a process that simply cannot exist in the bureaucratic structure of public-sector planning.

Following the Hayekian argument, the fundamental issue with public-sector attempts to generate entrepreneurial activity is the fact that the knowledge needed to do so successfully, in its totality, is not given to any one person or group of people. Specifically, the information that public-sector officials would need to develop successful economic development programs simply cannot be obtained, as it is dispersed among all economic actors. This knowledge problem, therefore, becomes a significant hurdle for tax incentive development programs. It is unlikely that the government officials in charge of developing these programs have the knowledge necessary to effectively determine where to locate these programs, which industries to promote, or which type of tax incentives will be most effective at fostering entrepreneurial activity (Seshadri & Storr, 2010). Tax incentive programs, therefore, operate under unrealistic assumptions about their ability to select the types of businesses that are considered for the tax breaks (Sautet & Shoaf, 2006).

Importantly, the knowledge problem has the potential to become more severe as the programs become more specific. The more focused that tax incentive programs become, the more the programs suffer from issues that stem from the knowledge problem. Public-sector officials, for example, require more market information as the type of economic activity they are
targeting becomes more specific. We can expect, therefore, that the more targeted a tax incentive becomes, the less effective it will be—as a result of the greater amount of information that a government official needs but cannot obtain.

The development and implementation of tax incentive programs are also dependent on the subjective nature of the political process. While developing a political economy approach to this type of policy, Dewar (1998) identifies a perverse incentive structure that exists in the political process surrounding general economic development policy. Specifically, program administrators running development programs with the main goal of encouraging long-term economic growth fail, because they lose their key constituents as a result of their inability to produce short-term results. Conversely, administrators running development programs that are able to preserve the support of governors, legislators, and mayors continue to receive funding but have little or no impact on economic growth or business development (Dewar, 1998). The incentive structure is, therefore, set up in a way that promotes the implementation of politically beneficial programs rather than ones that are economically rational. Therefore, having bureaucrats cherry-pick the locations or the types of firms that receive tax incentives is arguably an ineffective way to enhance a state’s business climate.

As Dewar (1998) presents an interesting argument for the perverse incentives faced by program operators, Gabe and Kraybill (2002) identify a similar problem faced by the politicians advocating this type of policy. Offering state and local tax incentives gives politicians talking points while they are advocating the programs, and bragging rights when the programs are implemented. Unfortunately, the true cause of economic development and business activity is often difficult to identify, and voters and politicians are generally unaware of the long-term performance of these programs. Imperfect information coupled with the artificially high
performance estimates tend to result in unwarranted political benefits (Gabe & Kraybill, 2002). Moreover, when these programs fail, it is often easy to blame the failure on economic conditions, market forces, or bad business behavior, further decreasing the political risk (Buss, 2001).

Additionally, an interesting political narrative develops once these programs are in place. Not only are many tax incentive programs difficult to undo, but once in place, it becomes politically easier to increase their magnitude or the public sector’s involvement in the program. As Rizzo and Whitman (2008) write, “Once the initial policy is in place where no policy existed before, it often becomes politically cheaper than before to propose extensions to that policy. The logic of the political process often requires that a milder form of a policy be introduced and adopted first” (p. 9). In other words, it is easier to get a small-scale program through the legislature and then expand it once it is already in place than it is to get a large-scale program through. If a program is successful, then politicians have an incentive to claim credit for its success and to provide further financial support for the program in order to achieve further success. Conversely, if the program fails to foster the intended business activity, then it becomes easy to blame the ineffectiveness on inadequate funding, another reason to increase funding for the program. There is, therefore, a slippery slope inherent in the political process surrounding these programs. Once a tax incentive program becomes part of a state’s economic development portfolio, successful or not, the political process can quickly lead to greater public-sector involvement in the program.

The general effectiveness of tax incentive programs is further inhibited when the federal government takes on the role of funding state-based programs. Although federal tax incentive programs are not the focus of this policy essay, it is important to note that the federal government underwrites some state-based tax incentive programs (Buss, 2001). Providing federal funding to
state-based programs creates a fiscal illusion, since state officials perceive the tax incentives to be less costly than they actually are. As programs appear less costly, perceived benefits artificially outweigh the perceived costs, further distorting the already skewed cost-benefit analysis for state politicians. While the general problems of tax incentive programs are now clear, it is also important to discuss some problems that are more specific to each of the three types of programs.

### Spatially Targeted Programs

Tax Increment Financing Districts (TIFs) are certainly the most widely used spatially targeted tax incentive today. According to the Council of Development Finance Agencies (2007), TIFs are urban development tools that are often used to resurrect blighted and abandoned communities by encouraging new investment from the private sector. In other words, these programs attempt to create entrepreneurial activity and economic development in areas where it would not have otherwise occurred. Currently, 49 states and the District of Columbia utilize TIFs (Council of Development Finance Agencies, 2007). Arizona is the only state that does not utilize TIFs, whereas the city of Chicago is often seen as the poster child for this type of program, operating more than 130 TIFs within the city. Enterprise zones are another common spatially targeted tax incentive program, worth noting since the use of these programs has been steadily growing. In fact, between the 1980s and the first few years of the 21st century, more than 40 states implemented enterprise zone legislation (Greenbaum, 2004).

Spatially targeted tax incentives are very problematic, both theoretically and empirically. These programs suffer significantly from the aforementioned knowledge problem. Government officials simply cannot obtain the knowledge necessary to effectively determine where to locate
spatially targeted incentive programs. This problem is intensified by the dynamic nature of state and local economies, coupled with the public sector’s inability to respond to the feedback mechanisms provided by the system of profit and loss (Hayek, 1945). As states grow and change, their business environment changes as well. Unfortunately, once a spatially targeted area is formally declared a zone or district, this is often difficult to “undo”—and is thus in place for the long run.

Dewar (1998) notes that most evaluations of spatially targeted economic development programs find that the “programs aimed at specific distressed geographic areas show almost no effects on the growth of these areas” (p. 68). The lack of results stems from the fact that, rather than creating economic activity, these programs merely redistribute the existing activity. As Greenbaum (2004) points out, the goal of spatially targeted incentives is simply to redirect business investment decisions. Because redirecting already existing business activity does not necessarily foster entrepreneurial activity or economic progress, even if spatially targeted programs successfully achieve their goal they may still fail to have a positive impact on economic growth.

Another problem that spatially targeted programs share lies in how the locations are defined, particularly in the case of enterprise zones. When politicians create zone legislation, they typically establish a list of distress criteria that a specific area must meet. For example, in Florida, Virginia, and New York the zone must meet some blighted criteria, while in the District of Columbia, Maryland, and Pennsylvania the zone must show sustained population decline (Greenbaum, 2004). Unfortunately, as Greenbaum (2004) points out, the definitions of distressed or blighted that are created end up being so broad that virtually entire states qualify, including economically healthy areas. To be clear, this is not a problem that necessarily impacts the
effectiveness of these programs. Rather, the problem is an inconsistency within the goal of the program. If the purpose of a the spatially targeted program is to restore specific blighted areas in a state, then providing a definition of “blighted” that covers virtually the entire state defeats the original goal of the program. The specific rule becomes general and it is applied without reason. Although this inconsistency may defeat the original purpose of the program, interestingly it may also enhance its effectiveness. Theoretically, if a spatially targeted tax incentive program is based on a definition that covers the entire state, then the program could be more effective because areas across the state—rather than a handful of poorly picked locations—would benefit from the program.

_Firm-Specific Programs_

Tax incentive packages that are offered to a specific _type of firm_ are commonly used and are often tailored to a particular type of development or political goal. This type of tax incentive often targets either a specific industry (i.e., the auto industry) or firms with a specific characteristic (i.e., fast growth potential or high rates of job creation). In North Carolina, for example, individuals can receive tax incentives for starting interactive digital media firms; in Wisconsin tax incentives are provided for dairy farm start-ups; and in many states there are tax incentives for the film industry. The High Impact Business program in Illinois is a good example of a tax incentive that targets a specific firm characteristic: in order to receive the incentive the business must be able to create 500 new jobs in the state. Essentially, firm-specific programs are created by politicians when they want more of a specific type of business activity in their state.

To be clear, the firm-specific tax incentives being discussed here are not the same as the industrial recruitment policy discussed earlier. Specifically, the industrial recruitment policy is
used to convince a single firm to move to a state, whereas firm-specific tax incentives are used to promote a specific type of industry or firm. The difference between these programs is similar to the difference between choosing a Chevy over a Ford (an example of industrial recruitment) and choosing the auto industry over the computer industry, or in broader terms, choosing firms that have the potential to create a higher number of jobs over family-owned firms (examples of firm-specific tax programs).

While firm-specific tax incentive programs have been less closely examined in the literature than spatially targeted incentives, they seem to run into very similar problems. Intuitively, it makes sense that these programs would face similar issues, given that the knowledge problem that arises in the decision-making process for choosing a specific locale is similar to that of the decision-making process for choosing a specific industry or type of firm. In both scenarios, public-sector officials do not have the knowledge necessary to make a rational decision. Moreover, because of their inability to utilize the feedback mechanisms allowed through the system of profit and loss, officials will also not be able to evaluate the effectiveness of their decisions. For example, as previously mentioned, politicians in Wisconsin have decided that dairy farms are one type of firm they would like to include in their tax incentive development portfolio. Unfortunately, there is no way to know whether dairy farms are the most economically beneficial type of firm to include in Wisconsin’s portfolio of tax incentive programs. What is known, however, is that state and local economies are extremely dynamic—and as a result, the type of firm that provides the greatest economic benefits today will likely not be the same as the one that will provide these benefits in the future.

Although the political decision about which type of firms are going to receive the tax incentives remains subjective, this type of incentive does allow the firm receiving the incentive
more freedom to choose when and where to do business, compared to spatially targeted programs. Private-sector individuals are arguably better equipped to make the decision about where to locate their business. This type of program certainly benefits from the fact that it provides individuals in the private sector some flexibility in their decision about where to locate their business.

**Investment-Specific Programs**

Rather than directly providing incentives to businesses, tax incentives offered for a *type of investment* are provided to individuals in the private sector who are investing in a certain type of business activity. Investment-specific incentives can be very narrow, such as Maryland’s Biotechnology Investment Tax Credit, or they can take a more general approach, such as Illinois’s Angel Investment Tax Credit. In either case, these programs are designed to provide monetary support for private-sector individuals who are directly investing in business start-ups or expansions.

Investment-specific tax incentive programs can, theoretically, be the most effective type of state-based entrepreneurship policy. Unfortunately, with the exception of some work done on venture capital, these programs are the most under-studied type of tax incentive. The benefit that investment-specific tax incentive programs have over spatially targeted and firm-specific programs is that they may be able to overcome some of the design and implementation issues inherent in these programs. Investment-specific programs are fundamentally different from the other types of tax incentive programs in two regards: (1) rather than directly making the business investment, these programs provide the incentives to private-sector investors, and (2) the success of the programs is a function of the investment decisions being made by individuals in the
private sector. These differences are fundamental to the potential success of this type of program. Providing the incentive to private-sector investors means there is less public-sector involvement in the investment process. Moreover, putting the investment discussions into the hands of private-sector investors can allow these programs to overcome some of the knowledge problems introduced earlier, because these individuals are able receive and respond to the information and feedback provided through the system of profit and loss. These differences are represented in the following figures.

Figure 3 (Scenario 1) represents the knowledge problem that spatially targeted and firm-specific programs run into. As previously mentioned, public-sector officials do not have the knowledge necessary to effectively determine where to locate these programs or which industries to promote. Moreover, they are not able to evaluate their decisions after the programs are implemented due to their inability to respond to feedback provided via the market process.

**Figure 3: Knowledge Problem Preventing Public Sector Learning – Scenario 1**
As can be seen in Figure 4 (Scenario 2), putting the investment decisions into the hands of private-sector individuals has the potential to enhance the effectiveness of the program. Similarly to public-sector investors, private-sector investors can choose, among other things, whether they want to focus their investments in a specific area or a specific type of firm. The difference, however, is that the private-sector investors are able to learn which investments are most valuable through the system of profit and loss. In other words, they are able to respond to the feedback provided via the market process and change their investing decisions accordingly. As can been seen, however, the knowledge problem is still present in this type of program. The type of investment activity that public-sector officials choose to incentivize is still a function of the subjective political process. Additionally, once the type of investment is decided on, public-sector officials are unable to evaluate their decisions.

**Figure 4: Knowledge Problem Preventing Public Sector Learning – Scenario 2**
Although investment-specific tax incentive programs can overcome some of the issues that stem from the knowledge problem, their potential effectiveness is a function of the scope of the program. As previously mentioned, this type of incentive can be very specific, such as an incentive for individuals investing in biotechnology, or it can be broad, such as an incentive for angel investors. The broader the type of investment, the more degrees of freedom private-sector investors have in their decision-making process. A narrow type of investment ties the hands of the investors by forcing them to focus on a specific type of business activity. Choosing a narrow type of investment, therefore, can defeat much of the potential benefit that this type of tax incentive program has to offer.

1.3 Concluding Remarks

It is important to remember that entrepreneurial activity is synonymous with business activity in entrepreneurship policy. In other words, the goal of entrepreneurship policy is to foster business activity. As this chapter makes clear, public-sector officials simply cannot obtain the information necessary to design or implement tax incentive programs that successfully foster business activity. Specifically, the knowledge program creates hurdles that are difficult to overcome for spatially targeted and firm-specific tax incentive programs. What public-sector officials can do, however, is allow the private sector to determine the success of these programs. That is, give individuals in the private sector the ability to choose Ford over Chevy, Chicago over St. Louis, or a firm with high growth potential over a family-owned dairy farm. Private-sector decision makers arguably have the knowledge and know-how that government officials lack in making these investment decisions.
Although investment-specific incentives are still subject to issues that stem from the knowledge problem, the differences in their design make them potentially more effective policy instruments for fostering entrepreneurship through business activity. Choosing a broad type of investment, such as those made by angel investors or venture capitalists, places the decision-making in the hands of the private sector rather than in the political process.
Chapter 2:

A Review of Illinois’s Economic Development Portfolio

The previous chapter outlined the relationship between tax incentive development programs and entrepreneurial activity and then provided a few explanations for why we can expect some programs to be more successful than others. Chapter 2 continues this discussion by providing a brief overview of the programs currently in place in Illinois while also introducing the general literature surrounding each program. Specifically, the following analysis focuses on the state and local tax incentive development programs currently promoted by the Illinois Department of Commerce and Economic Opportunity (DCEO).

The DCEO’s mission is to lead Illinois’s economic development process in a partnership with businesses, local governments, workers, and families by creating and retaining high-quality jobs and building strong communities. In order to achieve this mission, the DCEO promotes the following state-based tax incentive development programs: (1) the Angel Investment Tax Credit, (2) the Economic Development for a Growing Economy Tax Credit program, (3) the Enterprise Zone program, (4) the High Impact Business program, (5) the New Markets Development program, (6) the River Edge Redevelopment Zone program, (7) Tax Increment Financing Districts, and (8) the Film Tax Credit. Table 2 outlines this portfolio of tax incentive development programs, offering information on each type of incentive, maximum credit possible, and specific job requirement. As can be seen, the programs are introduced in order of the three categories of incentives that were presented in Chapter 1.
<table>
<thead>
<tr>
<th>Program Name</th>
<th>Tax Incentive</th>
<th>Cap on Incentive</th>
<th>Job Creation Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Area or Location Specific</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Increment Financing District</td>
<td>Increased tax revenue used for public improvements and economic development</td>
<td>NA</td>
<td>None Defined</td>
</tr>
<tr>
<td>Enterprise Zone Program</td>
<td>Multiple credits and exemptions including the enterprise zone investment tax credit</td>
<td>Cannot exceed the company's state tax liability for the given year</td>
<td>Hire at least 5 eligible employees to receive the jobs tax credit</td>
</tr>
<tr>
<td>River Edge Redevelopment Zone Program</td>
<td>Includes seven types of tax credits, deductions, and exemptions</td>
<td>None Defined.</td>
<td>Increase base employment by 1 percent or more over the preceding years</td>
</tr>
<tr>
<td><strong>Type of Firm</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Impact Business Designation Program</td>
<td>High impact investment tax credit and a jobs tax credit</td>
<td>0.5 percent of the basis of the qualified property</td>
<td>Invest $12 million to create 500 jobs or $30 million to retain 1,500 jobs</td>
</tr>
<tr>
<td>Economic Development for a Growing Economy Tax Credit</td>
<td>Applies to income tax for new employees and/or corporate income tax</td>
<td>Cannot exceed the company's state tax liability for the given year</td>
<td>5-25 new full-time jobs in Illinois (depending on employment size)</td>
</tr>
<tr>
<td>Film Tax Credit</td>
<td>30 percent of qualified expenditures, additional credit on salaries of employees in disadvantaged areas</td>
<td>30 percent on salaries of up to $100,000 for Illinois employees</td>
<td>None Defined</td>
</tr>
<tr>
<td><strong>Investment Activity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Angel Investment Tax Credit</td>
<td>Equal to percent of investment</td>
<td>$2 million</td>
<td>Potential to create jobs or increase capital investment</td>
</tr>
<tr>
<td>New Markets Development Program</td>
<td>State tax credit for companies that have been approved for the Federal New Markets Tax Credit</td>
<td>No more than $10 million in tax credits can be issued in any fiscal year</td>
<td>None Defined</td>
</tr>
</tbody>
</table>
1 Spatially Targeted Programs

1.1 Tax Increment Financing Districts

The Illinois Tax Increment Allocation Redevelopment Act (Public Act 84-1417) gives local governments the ability to designate areas within their jurisdictions as Tax Increment Financing Districts. When a TIF is created, the base value of the district is determined by assessing the current value of the property within that district. Property taxes then continue to be levied as usual, with the revenues generated from the base value going to the local government. However, the revenues generated from the increased property value within the district are set aside for public improvements and other economic development programs in the district. This difference between the property tax revenue generated before the district was created and the amount of revenue generated after the designation of the district is known as the tax increment (Illinois Tax Increment Association, 2007). In Illinois, the maximum life span of a TIF is 23 years.

The purpose of the TIF program, then, is to create a continuous cycle of development in which the initial investment increases the property value, thus increasing revenues, which are then reinvested into the district—ideally, further increasing the property value. As the Illinois Tax Increment Association (2007) states, the basic concept of a TIF is “for local taxing bodies to make a joint investment in the development or redevelopment of an area, with the intent that any short term gains be reinvested and leveraged so that all the taxing bodies will receive larger financial gains in the future.” In order to establish a TIF in Illinois, a unit of local government must identify physical and economic deficiencies (i.e., blighting requirements) and demonstrate that the conditions will not improve “but for” some form of public investment (Illinois Tax Increment Association, 2007). To put Illinois’s use of TIFs into perspective, consider the fact
that Cook County alone has 373 TIFs that earned $686 million in property taxes in 2005, just shy of the county’s total property tax extension of $720 million (Quigley, 2007). In total, there are approximately 943 TIFs located in more than 360 municipalities in Illinois (State of Illinois Comptroller, 2012).

As previously mentioned, 49 states and the District of Columbia currently utilize TIFs, making the program one of the most popular state- and local-based tax incentive programs (Council of Development Finance Agencies, 2007). The effectiveness of TIFs has been widely examined in the literature, but the results are mixed and there seems to be a large variation in effectiveness across states and individual districts. Before reviewing the findings in the literature, it is important to note that there is an problem inherent in measuring the effectiveness of a TIF. As Dye and Merriman (2000) point out, there may be a tendency to select areas specifically because they are expected to grow, which would overstate the effects of the districts. Conversely, the authors also point out that there may be a tendency to select areas specifically because they are less likely to grow, in line with the initial purpose of the TIFs, which would understate the impact of the districts. This selection bias is a likely source of the differing findings in the literature.

A common criterion used to assess the effectiveness of a TIF is the change in the total assessed value of the district, with an increase in value indicating a positive impact. In an analysis of the assessor’s role in determining the value of TIFs in Springfield, Illinois, however, Ritter and Oldfield (1990) find that assessors tend to over-assess the value of TIFs. Because assessed value may not be an appropriate metric for evaluating the effectiveness of this type of policy, Man and Rosentraub (1998) instead use the change in the market value of the properties located in the district. Using pre-TIF and post-TIF property values, they find that TIFs have a
statistically significant positive effect, ceteris paribus, on the median owner-occupied housing values in Indiana. This finding aligns well with the idea that TIFs result in a continuous cycle of development, as the increase in property value further increases the tax increment, which can then be reinvested into the district.

While Byrne (2010) finds that TIFs supporting industrial development have a positive impact on municipal-level employment, his findings also suggest that TIFs supporting retail development have a negative effect on municipal-level employment. In a study of 235 northeastern Illinois municipalities, Dye and Merriman (2000) find empirical evidence suggesting that cities that adopt TIFs experience slower overall growth rates, as well as slower growth rates in property values, when compared to cities that do not adopt TIFs. More recently, Merriman, Skidmore, and Kashian (2011) find that that residential and manufacturing TIFs in Wisconsin end up costing the community initially and generate less than a dollar of aggregate property value for every dollar of TIF increment gained. Spending more than the tax increment certainly does not lead to the intended continuous cycle of development. Overall, there is little that can be said conclusively about the effectiveness of TIFs. As Briffault (2010) argues, “There is little clear evidence that TIF has done much to help the municipalities that use it, and it is also a cause of intergovernmental tension and a site of conflict over the scope of public aid to the private sector” (p. 83).

1.2 Enterprise Zones

The Illinois Enterprise Zone Act (Public Act 82-1019) was created to stimulate economic growth and neighborhood revitalization in economically depressed areas of the state. According to the Illinois Department of Commerce and Economic Opportunity, this act provides eligible
businesses that are located in, or that choose to locate to, enterprise zones with the ability to obtain special state and local tax incentives, regulatory relief, and improved governmental services in order to “provide economic stimulus to an area that would otherwise be neglected.”

For an area to qualify as an enterprise zone it must either satisfy one of four economically distressed criteria or demonstrate the potential for high job creation or investment (McCourt, LeRoy, & Mattera, 2003). Additionally, to receive the benefits provided in an enterprise zone, businesses must make the minimum statutory investment needed to create or retain a specific number of jobs. Each zone has a zone administrator who is responsible for zone compliance and for the approval and allocation of zone benefits.

Since the Enterprise Zone Act was passed in 1982, the Department of Commerce and Economic Opportunity has designated 97 enterprise zones throughout Illinois, the maximum number legally allowed in the state. Figure 5 shows the location of each of these zones. Enterprise zones can range from half a square mile to 15 square miles, and have a maximum life span of 30 years. It is important to note, however, that some of the current zones will reach their 30-year life span within the next year. In attempt to
prevent this from happening, Senate Bill 3688 (2012) was recently introduced in Illinois and, if passed, would extend the maximum life span of an enterprise zone to 55 years, allow the creation of 10 additional zones, and expand the maximum size of a zone to 18 square miles.

Measuring the effectiveness of enterprise zones in Illinois and other states is a difficult task for many reasons. As the Illinois Department of Revenue (2009) notes, the enterprise zone program is “difficult to analyze in isolation because it is part of a package of incentives that are available to firms located in the zone” and “local governments may offer incentives to firms within their Enterprise Zones that would not be captured in state-level data” (p. 16). In other words, different firms benefit from different types of incentives within the same zones, some of which are unique at the state level and others at the local level.

The evidence used to support enterprise zones generally comes from the organizations in charge of operating or promoting these zones. According to the Illinois Enterprise Zone Association (2011), for example, there are currently 35,313 businesses investing in Illinois enterprise zones, $33.4 billion has been invested, 281,330 jobs have been created, and 458,250 jobs have been retained. Most recently, during FY 2011, investments made in the 97 zones exceeded $2.4 billion, resulting in the creation of 8,980 jobs and the retention of 14,119 jobs (Illinois DCEO, 2011a).

Peters and Fisher (2002) point out that the primary public justifications for enterprise zones are that they attract capital investment, create jobs, and increase the state and local tax base. However, following a detailed review of the literature and a series of econometric analyses examining the effectiveness of enterprise zones, Peters and Fisher (2002) find that not only are these zones generally ineffective engines of economic expansion, but they often result in a fiscal
net loss. Specifically, the authors find that average-sized zones with average incentive packages can eventually result in a total annual fiscal loss of $1 million to $2 million, and that these average incentive packages are equivalent to a 1.6 percent to 7.1 percent cut in wages. Although Peters and Fisher’s results were not specific to Illinois, their findings were based on 75 cities across 13 states, including Illinois. Additionally, the Illinois Department of Revenue (2009) provides the following conclusion: “We doubt that the [Enterprise Zone Act] is very effective in meeting its goals of stimulating economic growth and job creation and retention in depressed areas” (p. 16). These results certainly question the previously mentioned benefits boasted by the Illinois Department of Commerce and Economic Opportunity and the Illinois Enterprise Zone Association, as well as the creditability of Senate Bill 3688 (2012).

1.3 River Edge Redevelopment Zone

The Illinois River Edge Redevelopment Zone program (RERZ), effective July 2006, was enacted to stimulate economic revitalization and to create jobs by reviving and redeveloping environmentally challenged properties adjacent to rivers in Illinois. Specifically, RERZ provides tax incentives to individuals and businesses developing qualified river-edge properties. The program is composed of seven main incentives: the investment tax credit, the jobs tax credit, the environmental remediation tax credit, the dividend income deduction, the interest income deduction, the building materials sales tax expansion, and the property tax abatement. Currently, RERZ allows the Illinois DCEO to designate zones in the following four cities: Aurora, East St. Louis, Elgin, and Rockford. A zone must have at least 100 acres of environmentally challenged land within 1,500 yards of the riverfront, it can range in size from half a square mile to 12 square miles, and it has a maximum life span of 30 years. Although a River Edge Redevelopment Zone
cannot be located in an enterprise zone, it can overlap with TIFs. Figure 6 shows the Rockford zone, as well as the TIFs located within the zone.

RERZ is administered by a partnership between the Illinois DCEO and the Illinois Environmental Protection Agency, and the program is still in its pilot stage. While a handful of projects are benefiting from RERZ in the Rockford zone, including an educational facility, a new marina, and various commercial development projects, other zones, such as the East St. Louis zone, are still meeting with potential developers (Illinois DCEO, 2009a).

Similarly to many other spatially targeted tax incentive programs, the RERZ incentives are offered to all qualifying properties and businesses within the zone, rather

Figure 6: Rockford River Edge Redevelopment Zone and TIFs

Source: Rockford Area Economic Development Council
than on a case-by-case basis. As the Illinois DCEO (2007) states, “Case-by-case is contrary to the intent of the River Edge Redevelopment Zone Act. Tax Incentives must be offered uniformly and equitably by class . . . such as class of property (i.e., commercial and industrial) and formulas (i.e., percentages and number of years available)” (p. 8).

Although the program is still in its early stages, the Illinois DCEO produces annual program reports, as well as periodic program evaluations that outline how well RERZ has been meeting its goals. In additional to providing information on the type of business and projects that qualify for the RERZ incentives each year, these reports provide estimates of the number of jobs that will be created or retained. In a recent program evaluation report, the Illinois DCEO (2009a) states that between FY 2007 and FY 2009, the investments made in the RERZ zones exceeded $31 million and are projected to result in the creation and retention of 222 jobs.

The most recent annual report, however, concludes that it is still too soon to fully evaluate the program’s effectiveness, and states that “with more time and resources the River Edge Redevelopment Program will become one of the State’s most successful economic development tools” (Illinois DCEO, 2009b). Unfortunately, in the absence of a rigorous program evaluation, this statement seems to lack support. It seems unlikely that an incentive program that only affects four relatively small areas of Illinois will become one of the state’s most successful economic development tools. Moreover, given the overlap that exists between RERZ zones and TIFs, it seems that the incentives provided by the program may be unnecessary or even redundant.
2 Firm-Specific Programs

2.1 High Impact Business Act

The High Impact Business Act was introduced in order to assist in the development, growth, and expansion of the private sector via large-scale investment and development projects. The program provides a series of tax credits and exemptions to businesses that agree to make substantial capital investments in projects that will create or retain an above average number of jobs (Public Act 82-1019, Section 5.5). Specifically, in order to qualify for the High Impact Business (HIB) incentive, the business must “intend” to follow through with one of the following five actions: (1) investing a minimum of $12 million that will result in the creation 500 full-time jobs or investing $30 million that will result in the retention of 1,500 full-time jobs; (2) establishing a new electric generating facility, expanding an existing one, or establishing a new coal gasification facility; (3) establishing production operations at a new coal mine, reestablishing production operations at a closed mine, or expanding production at an existing coal mine; (4) constructing a new transmission facility or upgrading an existing transmission facility; or (5) establishing a new wind power facility (Public Act 82-1019, Section 5.5). In each case, the business must show that the investments, job creation, and job retention would not occur in the absence of the tax incentive.

To be clear, the HIB program is a subsection of the Enterprise Zone Act, and the incentives are similar, but the programs cannot overlap. The HIB incentive package is limited to businesses that designate a location in Illinois but outside an enterprise zone. High-impact businesses located in federally designated foreign trade zones or sub-zones, however, are eligible to receive additional tax credits (Public Act 82-1019, Section 5.5). These additional incentives
include: a sales tax exemption on building materials, an investment tax credit, an exemption from state gas and electric tax, and a state sales tax exemption on personal property used or consumed in the manufacturing process or in the operation of a pollution-control facility.

The HIB program is, therefore, a unique mix of high-impact businesses and energy- and environment-related projects. To my knowledge, the HIB program has not yet been thoroughly examined in the literature or by the DCEO. It is reasonable to assume, however, that the program’s effectiveness may be similar to that of enterprise zones, because the incentive package that HIB offers essentially creates mini enterprise zones for large businesses that intend to create or retain jobs.

2.2 Economic Development for a Growing Economy Tax Credit

Public Act 91-479, effective August 1999, created the Economic Development for a Growing Economy Tax Credit program (EDGE) in Illinois. The purpose of this program is to make it less costly, relative to other states, for businesses to operate and compete in Illinois. In order to achieve this goal, EDGE provides tax incentives designed to encourage businesses to locate to or expand operations in Illinois, with a focus on firms that are actively considering relocating to a competing state. Specifically, in order to qualify for EDGE, the applicant must demonstrate that the project would not take place in Illinois without the EDGE incentives by providing written evidence of at least one of the following: (1) there are many location options and the applicant could reasonably and efficiently locate outside Illinois, (2) at least one other state is being considered, (3) without the EDGE incentives the applicant would likely not create or retain jobs in Illinois, or (4) EDGE is essential to the applicant’s decision to create or retain jobs in Illinois (Illinois DCEO, 2011b).
Applicants that qualify for EDGE must commit to making a capital investment in Illinois of at least $5 million and creating a minimum of 25 new jobs. Companies with fewer than 100 employees, however, require a smaller commitment: at least a $1 million capital investment and the creation of five new jobs. The project must also add to the export potential of Illinois, which includes manufacturing or services exported out of the state but not retail trade or personal services (Illinois DCEO, 2011b). If approved, the firm can claim a nonrefundable tax credit against its state income taxes. Unlike the previously discussed spatially targeted tax incentives, the allocation of EDGE incentives is decided on a case-by-case basis by the DCEO. Specifically, the DCEO determines the life span of the incentives for each company, which is a maximum of 10 years for most companies but can be extended to 15 years for companies that have annual worldwide revenues of $25 billion or more (Hughes & Wong, 2001). The size of the incentive is also determined on a case-by-case basis by the DCEO, but cannot exceed the state personal income taxes paid by the new or retained employees (McCourt, LeRoy, & Mattera, 2003).

According to McCourt, LeRoy, and Mattera (2003), EDGE is an improvement on similar tax programs because it requires a minimum job creation level, imposes a cap on the amount of credit a business can receive, and requires that businesses moving to Illinois provide evidence that their current location is inadequate. In an early review of the program, Hughes and Wong (2001) find that Illinois realized a 7 to 1 return on its investment from the tax incentives granted to companies under EDGE. Moreover, the authors argue that EDGE increased Illinois’s “win rate,” the ratio of the number of companies that relocated to or expanded in Illinois to all companies that considered such a move, from 17 percent to 46 percent in the first two years of the program’s implementation. Some of the “victories” that increased the state’s win ratio
included Boeing, Quaker Oats, Proctor & Gamble, Deere & Company, and Solo Cup Company (Hughes and Wong, 2001).

While the benefits from EDGE may seem clear, there are some notable deficiencies the method used to measure the program’s performance. As McCourt, LeRoy, and Mattera (2003) correctly point out, the absence of a cost-benefit analysis for EDGE makes it hard to conclude with any certainty that the program’s costs are worth its possible benefits. In other words, even if the program has increased Illinois’s “win ratio,” this does not support any conclusions about the overall cost-effectives of these decisions. Ultimately, EDGE has turned into a type of industrial recruitment policy. It is, therefore, necessary to better understand how influential EDGE has been on company relocations, as well as how important it is in convincing companies to stay in Illinois.

The general opinions regarding EDGE’s effectiveness range from labeling it one Illinois’s most successful tax programs to arguing that it has contributed to Illinois’s low-ranking business climate. In an annual EDGE report, the Illinois DCEO (2009) states, “One of the most successful economic development tools provided by the General Assembly and Governor Pat Quinn is the Economic Development for a Growing Economy (EDGE) Tax Credit Program” (p. 1). In attempts to show his support for EDGE, Governor Quinn expanded the type of tax credits that companies can apply for under EDGE, and said, “The Economic Development for a Growing Economy (EDGE) tax credit that I put the full weight of my Administration behind and signed into law will provide much-needed relief to our State’s ailing automotive industry and prove to be a necessary incentive for one of our nation’s leading car companies to stay and thrive in the Land of Lincoln” (Illinois Government News Network, 2010b). Less optimistic about the program, Cancino (2011) argues that EDGE was at least part of the reason that Good Jobs First
gave Illinois a “D” in its state-based incentive grading report. EDGE’s job creation factor has also been called into question, as Bergen, Harris, and Cancino (2011) note that 52 percent of the companies that were approved to receive the credit ended up failing to qualify for the credit in subsequent years for reasons such as not hitting the promised job targets. The authors conclude that “the fact that so many companies have left money on the table, for whatever reason, raises questions about how effectively the EDGE program functions as a tool to create and retain jobs.”

As a part of this research, a Freedom of Information Act (FOIA) request was sent to the DCEO in order to gather additional information about EDGE. According to the DCEO, 522 companies have been eligible for EDGE since 2001, a total of $455,544,936 in EDGE credits have been allocated, 18,233 jobs have been created, and 30,853 jobs have been retained. Although the DCEO included information for 522 companies, only 203 companies had actually received a tax credit during this time, while the other 319 companies had lost the credit for the years provided. The following analysis will focus on additional data received through the FOIA request. Starting with the simple growth in EDGE tax credits, Figure 8 shows that between 2001 and 2010 the total EDGE tax credits allocated annually increased by roughly 1,200 percent, from $6.5 million to $85 million.
As one would expect, the number of companies receiving the tax credit each year has also grown at a rapid pace since 2001 (Figure 8). Specifically, between 2001 and 2010 the number of companies receiving EDGE tax credits grew by roughly 700 percent, from 18 to 146. To be clear, this number only includes the companies that actually received tax dollars, and thus does not include companies that were eligible for EDGE but failed to meet the necessary requirements.
Although it is clear that there has been rapid growth in the total amount of the tax credit, as well as in the number of companies receiving it, it is also important to examine how the average EDGE credit per company has changed. As can be seen in Figure 9, the average amount of tax credit that each company receives has increased by roughly 163 percent, from $361,684 in 2001 to $954,463 in 2010.

![Figure 9: Average Tax Credits per Company](image)

The data provided through the FOIA request reveal a trend toward a rapidly increasing number of companies receiving the credit each year, as well as toward a growing amount of tax credit allocated each year. Although there is not much that can be said conclusively about EDGE, it is clear that there has been rapid growth in program utilization. Therefore, the only EDGE-specific policy recommendation that can be offered here is further investigation of the program’s strengths, weaknesses, and effectiveness.

2.3 Film Tax Credit

Illinois’s Film Production Tax Credit Act was signed into law in 2008 (Public Act 95-720). According to the Illinois General Assembly (2008),
The Illinois economy is highly vulnerable to other states and nations that have major financial incentive programs targeted to the motion picture industry. Because of the incentive programs of these competitor locations, Illinois must move aggressively with new business development investment tools so that Illinois is more competitive in site location decision-making for film productions (Public Act 95-720).

Therefore, the purpose of this tax incentive program is to promote economic growth and job opportunities by making Illinois a more competitive site location for the film industry. Specifically, this program offers film producers a credit for 30 percent of all qualified production spending in Illinois as well as a credit for 30 percent of all salaries of up to $100,000 for Illinois employees. Film producers can receive an additional credit of 15 percent for the salaries of individuals that live in economically disadvantaged areas. The tax credits can be carried forward for up to five years, and the Illinois Film Production Tax Credit Act has a sunset of 2021 (Illinois Film Office, 2009). The tax credits are also transferrable, meaning they can be sold to a third party (Illinois Policy Institute, 2010). In order to qualify for these tax incentives, the film producer must directly contribute to Illinois production spending by spending at least $50,000 for a project under 30 minutes long, or at least $100,000 for a project over 30 minutes long.

Movie production incentives (MPIs) have become a widely popular state-based development tool. In 1992 Louisiana became the first state to adopt an MPI, and by 2009 44 states and the District of Columbia had implemented similar programs (Luther, 2010). States have provided nearly $6 billion for these programs over the past decade, with $1.4 billion allocated in 2010 alone (Henchman, 2011). As can be seen in Table 3, from 2006 to 2008 the state of Illinois allocated roughly $39 million in film incentives.
<table>
<thead>
<tr>
<th>Year</th>
<th>Full-Time Equivalent Illinois Jobs Funded by Film Production</th>
<th>Film Tax Credits Utilized*</th>
<th>Tax Credit Dollars Per Job Funded</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2,428</td>
<td>$3,408,610.75</td>
<td>$1,403.88</td>
</tr>
<tr>
<td>2007</td>
<td>4,262</td>
<td>$14,877,618.40</td>
<td>$3,490.76</td>
</tr>
<tr>
<td>2008</td>
<td>3,687</td>
<td>$20,468,135.62</td>
<td>$5,551.43</td>
</tr>
</tbody>
</table>

*Only includes tax credits taken advantage of. Tax Credits are valid for years after they are issued.


The literature regarding whether these programs effectively meet their goals is inconclusive. A common argument supporting the use of MPIs is the idea that this type of program has a multiplier effect on an economy. That is, when states utilize MPIs, the film production process creates jobs and these newly employed individuals spend their earnings at local supermarkets, restaurants, and gas stations, thus fostering additional business activity (Luther, 2010). Similarly, MPIs are said to increase tourism, which boosts economic activity and increases tax revenues (Luther, 2010). As Luther (2010) points out, however, given the temporary nature film production, most jobs created are not permanent and the workers are often left unemployed when production ends. He also argues that, although a positive correlation between movie production and tourism may exist, there is no evidence regarding the relative costs of the potential increases in tourism.

MPIs suffer from a problem similar to that of the industrial requirement process discussed earlier. It is unlikely that government officials possess sufficient knowledge to pick the film industry’s winners and losers (Luther, 2010). Ultimately, the absence of a comprehensive cost-benefit analysis, coupled with the inability of government officials to make efficient decisions about the allocation of the film incentives, raises some significant concerns about Illinois’s Film Tax Credit program. As a report by the Illinois Policy Institute (2010) concludes,
“A comprehensive cost-benefit analysis will allow taxpayers and policy makers to judge how effective this program is in comparison to other economic development programs—and allow taxpayers to get the biggest bang for their buck” (p. 3).
3 Investment-Specific Programs

3.1 Angel Investment Tax Credit

Illinois’s Income Tax Act was recently amended to create the Angel Investment Tax Credit program (35 ILCS 5/220, Sec. 220). The purpose of this program is to encourage entrepreneurial activity and job creation in Illinois by providing tax credits to firms and individual investors that choose to invest in new, innovative business ventures. In order to qualify as a new business venture, an applicant must have fewer than 100 employees at the time of registration (at least 51 percent of whom are employed in Illinois), the applicant must be in good standing with the Illinois Department of Revenue, the applicant must have received not more than $10 million in aggregate private equity investments in cash or $4 million in investments that qualified for tax credits, and the applicant cannot have been in operation in Illinois for more than 10 consecutive years (Illinois DCEO, 2011c). Additionally, the applicant must provide registration that attests that the business is principally engaged in innovation, has its headquarters in Illinois, and has the potential to increase the number of jobs or the amount of capital investment in Illinois.

Conversely, to qualify as an angel investor, a business, corporation, partnership, or individual must invest in a qualified business venture and keep the investment in the qualified venture for at least three years. If approved for the Angel Investment program, the investor is able to receive a tax credit equal to 25 percent of the investment made in a qualified business venture, with a maximum credit amount of $2 million.

The final provisions of the Angel Investment program became effective in January 2011, making it one of Illinois’s newest tax incentive development programs. Because the program is still in its early stages, there has been little work done to examine whether it has been able to
achieve its goal in Illinois. Tax incentive programs that focus on angel investors, however, are commonly used across the United States. Angel investors are individuals or firms that provide financing to entrepreneurs in the early stages of a business start-up. Angel investors are a frequently used source of outside funds for young, high-growth firms, a source of funding that helped in the start-ups of Ford, Apple, Google, Amazon, and Starbucks (Hughes, 2010). It is often argued that angel investments are made to businesses that create high-skill, high-wage jobs and make important contributions to their states and communities.

Lortiz (2008) notes that angel investment tax incentive programs are becoming increasingly important because they help fill a growing void left by venture capitalists. Specifically, venture capitalists are shifting their investments away from start-ups and toward the expansion of more mature companies. In 1995, 38 percent of venture capital went toward seed and early-stage companies, but by 2005 this number had sunk to 19 percent. During the same time period, the number of angel investment groups in the U.S. grew from 10 to more than 200. States are expanding their use of angel investment tax programs because they hope that these incentives will increase the availability of funds and drive new business creation at the local level (Hughes, 2010). While the use of these programs has been growing, they can be highly “controversial and their impact has not been rigorously evaluated; even angels are in disagreement as to the economic growth benefit of tax credits” (Lortiz, 2008, p. 2).

Ultimately, an angel tax credit program changes the incentive structure of business investment and risk-taking. As Williams (2008) notes, the general purpose of these programs is to encourage entrepreneurial activity by reducing the risk and costs of angel investments. In other words, an angel tax credit makes it cheaper for investors to take risks, thus incentivizing riskier investment behavior. The problem is that not all risk is good risk—and incentivizing
angel investors to make riskier investments may have a perverse effect on the end goal of fostering entrepreneurship. The following section of this policy essay (Chapter 3) takes a closer look at the effectiveness of this program.

3.2 New Markets Development Program

Public Act 95-1024, effective December 2009, created the New Markets Development program (NMD), which provides additional tax credits to investment entities that invest in projects in Illinois that have been approved for the federal New Markets Tax Credit (NMTC) program. The NMD is unique relative to the other tax incentive programs discussed in this policy essay. Although the NMD is a state-based tax incentive development program, it is directly tied to a similar federal program, thus making NMD a state-federal hybrid. While the focus of this policy essay is strictly state-based tax incentive programs, the NMD is still worth mentioning because the state is in charge of the allocation of the credit.

The purpose of the NMD is to support small and developing businesses in low-income communities by increasing their access to capital funds. In order to receive tax incentives from the NMD program, investment entities must invest in federally approved Community Development Entities (CDEs), which make investments in qualified projects located in low-income areas of Illinois. To become a CDE, an applicant must be certified by the federal NMTC program, must enter into an allocation agreement with the Community Development and Financial Institutions (CDI) Fund of the U.S. Treasury Department, and must submit a $5,000 nonrefundable application fee (Illinois DCEO, 2011d). CDEs must also demonstrate that their primary mission is serving or providing investment capital for low-income communities. Investment entities that choose to invest in CDEs can receive a credit equal to 39 percent of the
purchase price of qualified investments. This relationship can be seen in Figure 10. The credit is not refundable or transferable, and the amount of the tax credit cannot exceed the taxpayer’s state tax liability for the year. The DCEO can allocate up to $10 million in NMD tax credits annually.

In Illinois, the federal NMTC program has granted $3.6 billion to CDEs in the state, an average of $62 million per CDE, and from 2004 to 2007 more than 80 percent of the projects were located in Chicago (World Business Chicago, 2009).

Although the Illinois NMD has not been subject to thorough analysis, there have been a series of mixed conclusions regarding the federal NMTC program. Proponents of the federal NMTC program argue that it has resulted in the following benefits: (1) it has leveraged $8 in private investment for every $1 of cost to the government, (2) it has generated almost $50 billion in financing to low-income communities, and (3) it has created or retained up to 500,000 jobs (New Markets Tax Credit Coalition, 2010). Conversely, Rubin and Stankiewicz (2005) find that although the NMTC program is a useful source of community development, it is not being optimized developmentally or economically. Moreover, they argue that the program tends to favor real estate transactions over business equity and that there are substantial problems with

Figure 10: New Markets Development Program

monitoring and enforcing the program. Forbes (2006) further concludes that the NMTC program falls short of its economic revitalization goals because it fails to effectively promote sustainable social change.

In an analysis of the federal NMTC program, the Government Accountability Office (GAO, 2007) concluded that the program may be accomplishing part of its objective to increase investment and development in low-income communities. The empirical analysis in the report shows that there has been an increase in investment. However, the GAO (2007) notes that because of data limitations, the increased investment may only establish an association between a tax credit and investment rates, rather than providing evidence for the program causing the increase. This suggests that the federal NMTC program and Illinois’s state-based NMD require a more detailed program evaluation.

4 Concluding Remarks

As this chapter has made clear, the Illinois Department of Commerce and Economic Opportunity currently promotes a diverse portfolio of state-based tax incentive development programs. Although many of the programs lack the cost-benefit analysis necessary to determine their efficiency and effectiveness, it is clear that some programs may be more promising than others. The literature on spatially targeted and firm-specific programs suggests that these types of policies face hurdles that are extremely difficult, if not impossible, to overcome. In addition to fundamental issues that arise when choosing the locations or types of firms that benefit from these programs, the net impact of some of them may, in fact, be negative. Although investment-specific programs have been less studied, this type of program certainly deserves more attention, since their net impact may be closer to breaking even—or to a net positive. While each of the
tax incentive development programs discussed in this chapter is different in design and implementation, the one general conclusion that can be made at this point is that we simply do not know enough about these programs. The following section (Chapter 3) utilizes survey data to further our understanding of two of Illinois’s current tax incentive programs.

Chapter 3: Case Study—Angel Investment Program

Chapter 1 outlined the theoretical framework necessary for understanding the relationship between tax incentive development programs and entrepreneurial activity, and then provided a few explanations for why we can expect some programs to be more successful than others. Chapter 2 provided a brief overview of Illinois’s current portfolio of state-based tax incentive development programs and introduced the general literature surrounding each program. This chapter, however, takes the analysis a step further by introducing original research. Specifically, this chapter presents a case study on the Angel Investment program. The results are based on a series of surveys and on information collected through a Freedom of Information Act request sent to the Illinois Department of Commerce and Economic Opportunity.

The purpose of this chapter is to explore the strengths and weaknesses of the Angel Investment program from the perspective of program participants. In particular, it looks at how the program affects the investment and business decisions of program participants. To be clear, the intent of this chapter is to provide an investigation rather than an evaluation. The following analysis will not, therefore, provide a program evaluation based on a cost-benefit analysis of each tax dollar that has been spent on the Angel Investment program. While cost-benefit analyses of tax incentive programs are important, the previous chapters have highlighted serious
issues with the methods used to measure program effectiveness, including issues that stem from program overlap, measuring outcomes versus outputs, and teasing out the external factors that impact economic growth and development. In order to avoid these methodological issues, the subsequent analysis takes a more individualized approach in an attempt to build a general understanding of this tax incentive policy from the perspective of program participants. This chapter will investigate the Angel Investment program by building a narrative based on the written survey responses.

1 Methodology

The results presented here are based on two main sources of information: (1) quantitative and qualitative survey data collected during the spring of 2012, and (2) quantitative data acquired through a FOIA request sent to the Illinois Department of Commerce and Economic Opportunity. The DCEO provided information for 58 business ventures that were invested in as a result of the Angel Investment program and 41 angel investors that received the Angel Investment Tax Credit. In total, 100 surveys were distributed. The specific response rates and results will be discussed in the following sections.

As a part of a relatively standard survey procedure, the first section of the surveys offered basic “fill in the blank” questions regarding the size of the companies and the impact that the tax incentives have had on their performance. To gain a better understanding of the of the type of companies that benefit from these programs, for example, the surveys included questions about the number of employees each company currently employs in Illinois, as well as the number of people that were hired as a result of the tax credit. To examine whether the tax incentive program influenced the company’s decision to do business in Illinois, the surveys included questions
regarding the decision to start or locate in Illinois, as well as questions about what the expected performance would have been if the company hadn’t received the tax incentives.

Because the principal purpose of this analysis is to investigate the experiences and opinions of the individuals and companies receiving the tax incentives, however, a qualitative section was included in the surveys that offered open-ended questions that allowed detailed written responses. This portion of the surveys included general questions about Illinois, such as where the state’s business climate ranks on a scale of 1 to 10 and whether the state’s business climate could be improved. The open-ended questions also tried to collect specific information about the programs, asking about their strengths and weaknesses, whether they could be improved, and how the companies had found out about them.

While the simple fill-in-the-blank questions provide a basic understanding of the type of companies receiving the incentives and the initial impact that the incentives had, the open-ended questions help contribute to a more thorough understanding of what the individuals receiving these tax incentives think about the programs. More specifically, the qualitative portion of the surveys is particularly important given that it provides an understanding of these tax incentive programs that was not available in the previous literature. The survey results, therefore, are an important contribution to the existing literature on state-based tax incentive programs in Illinois.

2 Angel Investment Tax Credit

Although the complete details of Angel Investment Tax Credit were outlined in Chapter 2, a brief review here will be helpful in interpreting and understanding the survey results. The purpose of the Angel Investment Tax Credit program is to encourage entrepreneurial activity and job creation in Illinois by providing tax credits to firms and individual investors that choose to
invest in new, innovative business ventures. In order to qualify as a new business venture, an applicant must have fewer than 100 employees at the time of registration (at least 51 percent of whom are employed in Illinois), the applicant must be in good standing with the Illinois Department of Revenue, the applicant must have received not more than $10 million in aggregate private equity investments in cash or $4 million in investments that qualified for tax credits, and the applicant cannot have been in operation in Illinois for more than 10 consecutive years (DCEO, 2011c). Additionally, the applicant must provide registration that attests that the business is principally engaged in innovation, has its headquarters in Illinois, and has the potential to increase the number of jobs and the amount of capital investment in Illinois.

Conversely, to qualify as an angel investor, the business, corporation, partnership, or individual must invest in a qualified business venture and keep the investment in the qualified venture for at least three years. If approved for the Angel Investment program, the investor is able to receive a tax credit equal to 25 percent of the investment made in a qualified business venture, with a maximum credit amount of $2 million.

While the Angel Investment program is still in its early stages in Illinois, there have certainly been differing opinions regarding its potential effectiveness. David Miller, CEO of the Illinois Biotechnology Industry Organization, said that “Governor Quinn and the General Assembly should be congratulated for enacting the Angel Tax Credit. . . . Passage of this measure sends a strong signal that Illinois—always among the best in research—will take its rightful place as among the best in generating and attracting high-paying technology jobs” (Illinois Government News Network, 2010a). However, Jeffery Cornwall (2012), director of the Center for Entrepreneurship at Belmont University, is less optimistic about the program. He writes, “The Illinois Angel Investment Credit Program’s site states that the program ‘will
encourage job growth.’ But when I talk with people who conduct research in entrepreneurial finance and in public policy, no one can offer me a single shred of evidence that angel-investment tax credits have any impact on job growth” (p. R5). The fact that the final provisions of the Angel Investment program became effective January 2011 means that there has been little work done examining this program in Illinois. The following to sections will provide this investigation.

2.1 Angel Business Ventures

Although the angel investors receive the tax incentives associated with the program, the information received through the FOIA request to the Illinois DCEO included information for both the angel investors and the business ventures. Specifically, the DCEO provided information on the total investments that business ventures in Illinois have received from angel investors that are a part of the Angel Investment program, as well as the estimated number of jobs that may be created as a result of the investments. To date, 58 business ventures in Illinois have received $8,201,343 from qualified angel investors. To be clear, there are no tax dollars directly included in the $8.2 million. Angel investors make the initial investment, and then can apply to receive tax credit for up to 25 percent of the investment. Regarding job creation, the 58 business ventures that received investments reported that an estimated 2,213 jobs will be created as a result of the investments.  

A fundamental purpose of the surveys, however, was to gather information beyond what was available in the literature or through the FOIA request. All 58 business ventures received a

\[\text{\footnotesize 5} \text{ This number is not exact because it does include averages. Some business ventures provided an estimated range of job creation: for example, 10 to 20. When this was the case, the average of the two numbers was included in the calculation for the total estimated jobs created.} \]
survey packet that included information on the Mercatus Center, information on the nature and purpose of this research, a consent form, and a two-page survey. An addressed envelope with postage was included in order to increase the potential response rate. In total, 11 of the 58 business ventures completed and returned the surveys, placing the response rate at roughly 19 percent. Although this response rate may seem relatively low, the fact that only 58 business ventures have been a part of this program—coupled with the fact that the program has been in place for under two years—certainly limited the potential survey pool.

Table 4 presents the results from the fill-in-the-blank component of the surveys. The left side of the table presents the questions and the right side presents the possible answers, as well as the corresponding response rates. Although the questions were fill-in-the-blank, ranges were provided for questions 1 through 3 in order to better represent the results. As can be seen, some of the questions received very one-sided answers, while others showed a greater distribution. Regarding firm size, roughly 54 percent of the sample currently employs between zero and four workers in Illinois, roughly 27 percent employs between five and nine, and roughly 18 percent employs 10 or more workers. Additionally, 100 percent of the sample reported hiring four or fewer workers as a result of the investment. When examining responses to the questions concerning the influence that the angel investment program had on firm location and performance, the answers suggest that the program has not yet had a significant impact. For example, 100 percent of the sample said that the Angel Investment program did not influence their organization’s decision to start in or locate to Illinois, 90 percent said they would have started, located, or expanded business in Illinois without the program, and 63 percent said their performance would have been same without the program. These answers may explain why 72
percent of the sample said they would continue doing business in Illinois if the angel investment program were to expire.
Table 4: Survey Results from Angel Business Ventures

<table>
<thead>
<tr>
<th>Question 1: How many people does your organization currently employ in Illinois (counting both full time and part time)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 4</td>
</tr>
<tr>
<td>5 - 9</td>
</tr>
<tr>
<td>10+</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question 2: What is the total dollar amount of the Angel Investment tax credit(s) that your organization has accepted or been approved for?</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $80K</td>
</tr>
<tr>
<td>$80K +</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question 3: How many people did your organization hire as a result of the Angel Investment tax credit(s)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 4</td>
</tr>
<tr>
<td>5 - 9</td>
</tr>
<tr>
<td>10+</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question 4: Did the Angel Investment tax credit influence your organization’s decision to start and/or locate in Illinois?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question 5: Would your organization have started, located, or expanded in Illinois without the Angel Investment tax credit?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question 6: Without the Angel Investment tax credit, your organization’s performance would have been:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better</td>
</tr>
<tr>
<td>Worse</td>
</tr>
<tr>
<td>Unaffected</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question 7: If the Angel Investment tax credit were to expire in Illinois, your organization will:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continue doing business in Illinois</td>
</tr>
<tr>
<td>Consider moving to another state</td>
</tr>
</tbody>
</table>
Although the fill-in-the-blank section of the survey yielded some interesting results, the short-answer survey responses uncovered some useful information concerning the strengths and weaknesses of this program, as well as ways to improve Illinois’s overall business climate. The remainder of this section will outline some of the reoccurring themes that appeared in the responses to this section of the survey.

The first question asked participants to rate Illinois’s business climate, relative to other states’, on a scale of 1 to 10—with 1 being the worst in the country and 10 being the best. On average, business ventures gave Illinois a rating of 5.6. A follow-up question was also offered, asking participants whether they thought Illinois’s business climate could be improved. Two clear themes that emerged in the responses to this question were that Illinois needs to improve its current fiscal situation and that the state should lower some of its current tax rates. One business venture, for example, wrote: “Reduce corporate VI capital gains tax. Spend less money. Balance the state budget. Reduce food stamps, unemployment and other benefits. In general: separation of economy and state.” Another wrote: “Financial management in Springfield is a disaster, a total embarrassment.” Similarly, upset with corruption in the state, one business venture wrote: “Reduce political corruption. Balance the state budget. Actively investigate/prosecute fraud including internet phishing, viruses, etc. and false assistance with funding investors.”

An additional theme that emerged in response to Illinois’s business climate involved specific solutions to help foster business activity. One business venture argued that Illinois should “1) change worker compensation laws, 2) Change unemployment benefit laws, 3) Modify taxes for positive effects for R & D, machinery purchase, 4) Incentive for owners to stay.” Another argued that “more direct investment in start-ups” is needed. A third business venture
said the state should “facilitate investments in startup companies. Have some group that can help 
companies navigate through the govt. agencies that have grants & loans available.”

There were some interesting themes that emerged in response to the questions concerning 
the strengths and weaknesses of the Angel Investment program and potential areas for program 
 improvement. The responses regarding the strengths of the program emphasized the general 
importance of providing incentives for start-ups. One business venture, for example, wrote: 
“Start ups are the engine of private sector growth but the key to helping start ups is to create a 
great city to do business: transportation, convenience, natural beauty, low taxes. Those things 
attract the smartest people. Smart people do great things.” Conversely, many of the business 
ventures argued that the biggest weakness of the Angel Investment program is simply that it is 
not well-known. These responses included statements such as, “Weakness: Not well known,” 
“[There is] not tremendous publicity about the program,” and finally, “No one knows about it! 
Particularly Investors!” These responses may be based on the fact that some business ventures 
had difficulty finding information about the program: “It was difficult to get to the right site to 
learn about the credit and how to apply.” Regarding program improvement, the participants 
argued that the Angel Investment program is weak in comparison to similar programs in other 
states. For example, “Illinois tax credit is really too weak compared to other programs in the 
neighboring states. Most other programs offer a tax credit refund. This is a cash back program, 
while the IL program is useful, only if you are already paying taxes in IL, and is not useful for 
out of state investors.”

The final component of the short-answer portion of the survey was an open-ended 
question soliciting any general comments that the participants might have about the topic. The 
responses suggest that the program may be too complicated and it may be the wrong method for
fostering business activity. One business venture argued that there is “too much stress on courting businesses to move here, not enough helping Illinois businesses to expand in-state operations.” Another wrote: “There is too much bureaucracy in the tax incentive programs. I have tried New Market Tax Credit, TIF, Angel Tax, etc. All are too difficult to obtain for an experienced business person. Most small & startups are not as knowledgeable as an Ex + VC, so there is no way they can see the desired benefits. They should be made simpler to access for regular people.” Another participant, similarly frustrated with these types of programs, wrote: “Give us capitalism—not a state-planned economy.”

2.2 Angel Investors

While the previous section focused on the business ventures that received investments as a result of the Angel Investment program, this section investigates the angel investors that have been approved for or accepted money from the Angel Investment program. The information received through the FOIA request sent to the Illinois DCEO included the number of angel investors that have been approved for the program, as well as the amount of the tax credit that has been allocated thus far. To date, 41 angel investors in Illinois have received $1,716,336 in tax credits. Angel investors that are approved for the Angel Investment program and that invest in a qualified business venture can apply to receive tax credits for up to 25 percent of the investment. As was seen in the previous section, $8,201,343 has been invested in business ventures, 25 percent of which is $2,050,336, indicating that angel investors have received an amount close to 25 percent of their $8 million worth of investments.

A fundamental purpose of the surveys, however, was to gather information beyond what was available in the literature or through the FOIA request. As with the business ventures, all 41
angel investors received a survey packet that included information on the Mercatus Center, information on the nature and purpose of this research, a consent form, and a two-page survey. An addressed envelope with postage was included in order to increase the potential response rate. In total, 7 of the 41 angel investors completed and returned the surveys, placing the response rate at roughly 17 percent. Again, although this response rate may seem relatively low, the fact that only 41 angel investors have been a part of this program, coupled with the fact that the program has been in place for under two years, certainly limited the potential survey pool.

As with the survey results for the business ventures, Table 5 presents the results from the fill-in-the-blank component of the surveys. The left side of the table presents the questions and the right side presents the possible answers, as well as the corresponding response rates. Although the questions were fill-in-the-blank, ranges were provided in order to better represent the results for questions 1 through 4. Regarding firm size, 60 percent of the sample currently employs zero to four workers in Illinois, 20 percent employs between five and nine, and 20 percent employs 10 or more workers. Interestingly, one angel investor reported having zero employees in Illinois—rather odd, considering that having employees in Illinois is a requirement for the Angel Investment program. The survey results concerning the impact the Angel Investment program has had on angel investors are somewhat better than the corresponding results for business ventures. For example, 85 percent of the sample said the Angel Investment Tax Credit did influence their decision to invest in business ventures in Illinois. However, 80 percent of the sample reported that they would have started, located, or expanded in Illinois without the tax credit, and 67 percent of the sample said they would have made the same investment without the tax credit. Additionally, 50 percent of the sample reported that they would continue investing in Illinois without the credit, while the other 50 percent reported that
they would make fewer investments in Illinois if the tax credit were to expire. These results are presented in Table 5.
Table 5: Survey Results from Angel Investors

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<tr>
<th>Question</th>
<th>0 - 4</th>
<th>5 - 9</th>
<th>10+</th>
<th>60.00%</th>
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<tbody>
<tr>
<td>Question 1: How many people does your organization currently employ in Illinois (counting both full time and part time)?</td>
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<td>Question 2: What is the total dollar amount of the Angel Investment tax credit(s) that your organization has accepted or been approved for?</td>
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<td>Question 3: How many people does the business venture(s) your organization invested in currently employ in Illinois (counting both full time and part time)?</td>
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<td>Question 4: How many people did the business venture(s) your organization invested in hire as a result of the Angel Investment tax credit?</td>
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<td>Question 5: Did the Angel Investment tax credit influence your organization's decision to invest in a business venture in Illinois?</td>
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<td>Question 6: Would your organization have started, located, or expanded in Illinois without the Angel Investment tax credit?</td>
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<td>Question 7: Without the Angel Investment tax credit, your organization would have:</td>
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<td>Still made the investment</td>
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<tr>
<td>Chosen not to invest</td>
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<td>Question 8: If the Angel Investment tax credit were to expire in Illinois, your organization will:</td>
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<td>Continue</td>
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<td>Fewer Investments</td>
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<tr>
<td>Stop Investing</td>
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The general results from the fill-in-the-blank section suggest that the Angel Investment program has had some positive impact on the angel investors receiving the tax credits. Again, however, the short-answer survey responses uncovered some useful information concerning the strengths and weaknesses of this program, as well as ways to improve Illinois’s overall business climate. The remainder of this section will outline some of the reoccurring themes that appeared in the responses to this section of the survey.

The first question asked participants to rate Illinois’s business climate, relative to other states’, on a scale of 1 to 10—with 1 being the worst in the country and 10 being the best. On average, angel investors gave Illinois a rating of 5.4, slightly lower than the average provided by business ventures. Again, a follow-up question was offered, asking participants whether they thought Illinois’s business climate could be improved. Many of the answers to this question focused on reducing various tax rates in Illinois. Specifically, the answers included statements such as “revise workman’s compensation, lower income taxes, revise welfare programs” and “reduce income tax, reduce estate tax.” One angel investor argued that Illinois needs to provide “additional incentives to compete with neighboring states” and another argued that the state should follow Chicago’s model: “Adopt Chicago’s policy of online transparency into State (City) finances and operations. Publicize the intent to encourage activists and entrepreneurs to recommend change. Praise and publicize the innovators. . . Privatization and service cuts.”

Responses to the questions concerning the strengths of the program were contradictory, as some participants praised the simplicity of the program while others noted issues with its complexity. One investor, for example, argued that it is “relatively easy to apply, excellent accessibility to key individuals at state with questions, very personable and truly interested in program effectiveness,” while another argued that the program is “very complicated.” Regarding
the program’s weaknesses and how it could be improved, the responses focused on program publicity and making small changes to the current program legislation. One investor said that Illinois should “increase publicity through selected channels (e.g. Illinois Technology Assoc. and other trade associations geared to small business, innovation, and job creation),” while others argued that the state should “streamline the process,” move to “on-line applications,” and “increase the amount of the credit.”

The final open-ended question allowed participants to provide general comments about Illinois’s business climate and the tax incentive programs offered in the state. Similarly to the business ventures, angel investors stressed the importance of improving the state’s fiscal climate: “The Illinois business climate will not improve until they get their state budget under control.” One investor challenged Illinois’s approach to tax incentive programs, arguing that “existing businesses are as important as new businesses and gimmicks to help start-up businesses is not as important as a business climate favorable to all businesses.” Others were more optimistic: “Sad that our tax rate is so high. . . . But that’s not permanent. I am hopeful, optimistic, and confident that Chicago’s startup boom, centered among our education institutions, supported by our serial entrepreneurs and unfettered by an enlightened administration will lift all boats . . . in IL and elsewhere.”

3 Concluding Remarks

The survey-based narrative provided in this chapter uncovered several important findings about the Angel Investment program. In general, it seems that the angel investors have had a more positive experience with the program than have the business ventures. Specifically, the Angel Investment program has had a marked influence on angel investors regarding the role that
it played in the decision-making process about investing in Illinois, whereas for business ventures, the Angel Investment program seemed to have virtually no impact on this decision. Moreover, a majority of the business ventures reported that their performance would have been unaffected in the absence of the Angel Investment program. The survey responses indicate that there are some mixed opinions concerning potential areas for improvement. Some investors and business ventures thought the program was simple and easy to use, while others were frustrated by its complexity. While there are mixed opinions about some aspects of the Angel Investment program, there is one problem that both investors and business ventures are concerned about— Illinois’s business climate. A prominent theme that showed up in many of the surveys was a concern about Illinois’s current fiscal situation.

**Policy Recommendations**

1. **Consider other options:** The Angel investment program is still in its early stages and it is, therefore, unclear whether it will successfully foster business activity in Illinois. Survey responses from investors and business ventures suggest that Illinois should stop focusing on minor tweaks to the tax code and instead focus on broad-ranging tax reform to create a more business-friendly tax climate. Even if the Angel Investment program turns out to be a success, Illinois would benefit greatly from embracing the principle of generality in its tax code by broadening the base and lowering the rate.

2. **Address Illinois’s fiscal issues:** Many of the investors and business ventures expressed concern about Illinois’s current fiscal issues. As one angel investor wrote, “The Illinois business climate will not improve until they get their state budget under control.” In order to effectively enhance Illinois’s business climate and foster business activity in the state, Illinois must get its fiscal house in order by
implementing institutional reforms—including overhauling the pension system, tightening the spending limit, and bolstering the rainy-day fund (Norcross & VanMetre, 2011).
Chapter 4:
The Future of Entrepreneurship Policy

Hart (2008) points out that, although there is an emerging body of work recognizing the causal link between entrepreneurship and economic growth, the literature “reaches no consensus as to whether and how public policy ought to try to foster entrepreneurship” (p. 153). Given that state and local governments are going to continue their attempts to foster entrepreneurship via target tax incentives, it is imperative that government officials understand precisely what needs to be done in order to make these efforts more effective. Although it is clear that reforming many of the current tax incentive programs is necessary, policy makers should be careful in crafting these reforms. Markusen and Glasmeier (2008), for example, argue that the solution to problems facing economic development programs is a “stepped-up federal government role” (p. 86). Giving the federal government a larger role in entrepreneurship policy is arguably the wrong approach, as this would not only complicate the situation but also add to the previously mentioned problems that state and local governments face when implementing these programs.

A better approach would be to focus on enhancing the analysis that goes into the decision-making process surrounding these programs, as well as the process used to evaluate them once they are implemented. Buss (2001) offers a few possible avenues for reform that follow this approach. Specifically, he provides a series of general policy recommendations that include, among others, (1) requiring a cost-benefit study prior to providing a large tax incentive, (2) requiring periodic evaluations of all tax incentive programs, (3) requiring sunset provisions for all economic development legislation, and (4) requiring legally binding performance
contracts. To be clear, these reforms should be adopted on the state level for state-based tax incentive programs; they should not involve federal intervention in state programs.

Reforming the current state and local tax incentive–based entrepreneurship policy will not overcome many of the political disincentives that accompany these programs in the short run. Effective entrepreneurship policy not only currently lacks the political benefits that come from credit-claiming and media coverage, but it also generally takes more than an election cycle to pay off (Hart, 2008). There are signs that this fact, however, is starting to change. More specifically, it seems that the growing awareness and use of entrepreneurship policy has slowly been changing the political game. As Hart (2008) notes, the use of smokestack-chasing policies has been declining since 1983, while the use of entrepreneurship strategies has been increasing. As the number of strategies increases, the media coverage for this type of policy has the potential to become more favorable. Increasing awareness and favorable media coverage essentially enhances the potential for political credit-claiming (Hart, 2008).

Nevertheless, making minor tweaks to current state-based tax incentive programs may not be the best approach. A potential reform strategy that has become popular in the literature would involve changing the general tax code for everyone, rather than reforming the tax incentive programs that are currently in place. Keuschnigg and Nielsen (2002), for example, find that higher capital gains taxes and progressive income taxation reduces the potential number of entrepreneurial start-ups and expansions. Similar research finds that capital gains taxes and corporate income taxes can be harmful to new firm start-ups and to the expansion of existing firms. Other evidence suggests that allowing business losses to be deductible under the payroll tax has a positive effect on entrepreneurial activity in the United States (Cullen & Gordon, 2007). These conclusions ultimately raise an important question about how effective tax
incentive programs are, relative to other policy options. Policy makers must consider the potential level of entrepreneurial activity that would take place in the absence of these programs, as well as the potential level that would occur when using other policy instruments.

Until this point, the analysis in this paper has taken the definition of entrepreneurship as given. Specifically, in the tax incentive literature the definition of entrepreneurship often focuses on business start-ups and expansions, and consequentially the effectiveness of the tax incentive programs was assessed Taking this definition as given. The second part of this concluding section, however, will argue that if politicians want to effectively enhance a state’s overall business climate and foster entrepreneurial activity, then they need to stop focusing on targeted tax incentives and begin making improvements to their state’s institutional structure. There is a clear mismatch between the design of these programs and their intended goal.

Hart (2003) argues that, when creating entrepreneurship policy, one must place boundaries around the type of entrepreneurial activity that the policy wishes to address because without these boundaries the policy runs the risk of becoming too broad, and consequently ineffective. With this in mind, Hart (2003) argues that public policy can foster entrepreneurial activity by promoting the process of starting, continuing, and expanding new businesses. Therefore, business start-ups and expansions are seen as the distinguishing elements of entrepreneurship. This is precisely the framework around which much of the tax incentive development literature has been built. This is, however, the wrong framework for entrepreneurship policy.

The fundamental flaw in focusing entrepreneurship policy on business start-ups is the fact that business start-ups are necessarily an inadequate measure of entrepreneurship, since they fail
to capture what is at the heart of entrepreneurial activity. As Kirzner and Sautet (2006) point out, business start-ups are the *result*—not the *cause*—of entrepreneurial activity (p. 21). Specifically, the authors argue that public policy that focuses on business start-ups fails to capture the essence of entrepreneurial activity, discovery, and innovation. In other words, public policy that attempts to foster entrepreneurship by incentivizing business start-ups and expansions arrives too late in the game, because it addresses the products of entrepreneurial activity rather than entrepreneurship itself. Therefore, the important question for entrepreneurship policy is not how public policy can enable more people to start businesses, but rather how it can create an environment that fosters entrepreneurial discovery and innovation.

As Hall and Sobel (2006) argue, in order to determine the best way for government policy to foster entrepreneurial activity, one must understand the process by which entrepreneurial outcomes are generated (p. 5). More specifically, one must determine the institutional arrangements that best allow for and foster the creation of socially productive ideas. In the market economy, the profit and loss system effectively sorts through entrepreneurial ideas, rewarding the good entrepreneurial ideas via profits and discarding the bad ones via losses (Hall & Sobel, 2006). Profit opportunity is, therefore, the drive for individuals to engage in socially productive entrepreneurship in a market economy. As Kirzner and Sautet (2006) argue, “Institutions that enable individuals to bet on the future and to reap the gains they have discovered will foster entrepreneurial discovery and, as a result, will create a dynamic and prosperous society” (p. 1). Therefore, entrepreneurship policy should focus on enabling individuals to be creative, to discover opportunities, and to reap the profits or suffer the losses that come from implementing their discoveries.
Reforming current state-based entrepreneurship policy is necessary but not sufficient for fostering economic progress through entrepreneurial activity. If states and localities want to foster entrepreneurial activity, then they need to focus on creating the necessary institutional environment rather than attempting to steer economic activity (Sautet & Shoaf, 2006). These institutional environments must be “as stable and predictable as possible over time so that they can be used as guiding tools in social interaction,” thus reducing the “relative cost of engaging in socially beneficial entrepreneurship” (Sautet, 2005, p. 3). This is precisely the framework on which future entrepreneurship policy should be built.

References


Appendix

Dear Sir or Madam:

We are writing to ask for your assistance in completing a brief survey.

We are researching the Economic Development for a Growing Economy (EDGE) tax credit in Illinois. As you may know, your organization has been approved for and/or accepted the EDGE tax credit. We would greatly appreciate it if you would take part in a brief survey to help us better understand the effectiveness of this tax credit, your opinion on its strengths and weaknesses, and your general opinion on Illinois’s business climate.

Your answers to this survey will help economists and public officials better understand the effectiveness of the current tax incentives offered in Illinois. Your response should take no more than 10 minutes and will be a very important contribution to our research. Feel free to skip over questions that you are not comfortable answering.

The information collected from this survey will only be used for research purposes. We are not acting on behalf of any government entity. The Mercatus Center is a university-based research organization focused on the economics of public policy.

Enclosed is a survey that we would like to ask a manager or owner with knowledge about the Economic Development for a Growing Economy Tax credit program to fill out. We have included an addressed and stamped envelope for you to return the survey. Please review and sign the attached consent form, which contains information regarding this risk, benefits, and confidentiality of this survey.

If you have any questions, please don’t hesitate to call us at 703-993-4930.

Thank you very much for your time and your participation.

Sincerely,

Virgil Storr
Senior Research Fellow

Benjamin VanMetre
Masters Student Research Fellow
Consent Form

We do not foresee any risks to completing this survey. There are no monetary benefits to you as a participant. We anticipate that your participation in this research will help scholars and policy makers better understand the effects of the EDGE tax credit program in Illinois.

Your participation in this research is voluntary. You may skip over any questions that you are not comfortable answering and there is no penalty if you decide not to participate.

As you will notice, some of the following questions are open ended. We will not use your real name or personally identifiable information unless you give us permission to do so. Access to the survey materials will be limited to the research team. Please initial and sign below to indicate the degree to which you would like your written answers to remain confidential.

This research is being conducted by Virgil Storr and Benjamin VanMetre at the Mercatus Center at George Mason University. Both can be reached at 1-703-993-4390 or by mail at 3351 North Fairfax Drive, 4th floor, Arlington, VA 22201. Their email addresses are vstorr@gmu.edu and ben.vanmetre@gmail.com, respectively. You may contact the George Mason University Office of Research Subject Protections at 1-703-993-4121, by mail at 4400 University Drive, Mail Stop 4C6, Fairfax, VA, 22030 or via email at hsrb@gmu.edu if you have questions or comments regarding your rights as a participant in this research.

This research has been reviewed according to George Mason University procedures governing your participation.

I have read this form and agree to take this survey.

Please initial one:

☐ I give permission to use my name.

☐ I do not give permission to use my name.

Name: ________________________________________________

Signature: _____________________________________________

Date: ________________________________________________
1. How many people does your organization currently employ in Illinois (counting both full time and part time)?

_____________________ workers

Is this number…

_____ Exact  _____ Best Guess

2. What is the dollar amount of the EDGE tax credit that your organization has accepted or been approved for?

_____________________ dollars

Is this number…

_____ Exact  _____ Best Guess

3. How many people did your organization hire as a result of the EDGE tax credit?

_____________________ workers

Is this number…

_____ Exact  _____ Best Guess

4. How many people did your organization avoid laying off as result of the EDGE tax credit?

_____________________ workers

Is this number…

_____ Exact  _____ Best Guess

5. Did the EDGE tax credit influence your organization’s decision to start and/or locate your business in Illinois?

_____ Yes  _____ No

6. Would your organization have started, located, or expanded in Illinois without the EDGE tax credit?

_____ Yes  _____ No

7. Without the EDGE tax credit, your organization’s performance would have been:

_____ Better  _____ Worse  _____ Unaffected

8. When the EDGE tax credit expires, your organization will:

_____ Continue doing business in Illinois

_____ Consider moving to another state

Please turn over to the other side.
1. On a scale of one to ten, how would you rate Illinois’s business climate relative to other states? (1 being the worst in the U.S. and 10 being the best). Please circle one.

   1   2   3   4   5   6   7   8   9   10

2. Do you think there are any measures that could be taken to improve Illinois’s business climate? If so, what are they?

3. How did you find out about the EDGE tax credit?

4. What do you think are the strengths and/or weaknesses of the EDGE tax credit program?

5. Do you think the EDGE tax credit program could be improved in any way? If so, how?

6. Do you have any other general comments about Illinois’s business climate or the tax incentive programs it currently offers?
Dear Sir or Madam:

We are writing to ask for your assistance in completing a brief survey.

We are researching the Angel Investment tax credit in Illinois. As you may know, your organization has been approved for and/or accepted the Angel Investment tax credit. We would greatly appreciate it if you would take part in a brief survey to help us better understand the effectiveness of this tax credit, your opinion on its strengths and weaknesses, and your general opinion on Illinois’s business climate.

Your answers to this survey will help economists and public officials better understand the effectiveness of the current tax incentives offered in Illinois. Your response should take no more than 10 minutes and it will be a very important contribution to our research. Feel free to skip over questions that you are not comfortable answering.

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This research has been reviewed according to George Mason University procedures governing your participation.

I have read this form and agree to take this survey.

Please initial one:

☐ I give permission to use my name.

☐ I do not give permission to use my name.

Name: ______________________________________

Signature: ___________________________________

Date: ________________________________

90
1. How many people does your organization currently employ in Illinois (counting both full time and part time)?
   
   ________________ workers

   Is this number…
   
   _____ Exact    _____ Best Guess

2. What is the total dollar amount of the Angel Investment tax credit(s) that your organization has accepted or been approved for?
   
   ________________ dollars

3. How many people did your organization hire as a result of the Angel Investment tax credit(s)?
   
   ________________ workers

   Is this number…
   
   _____ Exact    _____ Best Guess

4. Did the Angel Investment tax credit influence your organization’s decision to start and/or locate in Illinois?
   
   _____ Yes    _____ No

5. Would your organization have started, located, or expanded in Illinois without the Angel Investment tax credit?
   
   _____ Yes    _____ No

6. Without the Angel Investment tax credit, your organization’s performance would have been:
   
   _____ Better    _____ Worse    _____ Unaffected

7. If the Angel Investment tax credit were to expire in Illinois, your organization will:
   
   _____ Continue doing business in Illinois    _____ Consider moving to another state

Please turn over to the other side.
1. On a scale of one to ten, how would you rate Illinois’s business climate relative to other states? (1 being the worst in the U.S. and 10 being the best). Please circle one.

1  2  3  4  5  6  7  8  9  10

2. Do you think there are any measures that could be taken to improve Illinois’s business climate? If so, what are they?

3. How did you find out about the Angel Investment tax credit?

4. What do you think are the strengths and/or weaknesses of the Angel Investment tax credit program?

5. Do you think the Angel Investment tax credit program could be improved in any way? If so, how?

6. Do you have any other general comments about Illinois’s business climate or the tax incentive programs it currently offers?
1. How many people does your organization currently employ in Illinois (counting both full time and part time)?

____________________ workers

Is this number…

_____ Exact       _____ Best Guess

2. What is the total dollar amount of the Angel Investment tax credit(s) that your organization has accepted or been approved for?

____________________ dollars

3. How many people does the business venture(s) your organization invested in currently employ in Illinois (counting both full time and part time)?

____________________ workers

Is this number…

_____ Exact       _____ Best Guess

4. How many people did the business venture(s) your organization invested in hire as a result of the Angel Investment tax credit?

____________________ workers

Is this number…

_____ Exact       _____ Best Guess

5. Did the Angel Investment tax credit influence your organization’s decision to invest in a business venture in Illinois?

_____ Yes       _____ No

6. Would your organization have started, located, or expanded in Illinois without the Angel Investment tax credit?

_____ Yes       _____ No

7. Without the Angel Investment tax credit, your organization would have:

_____ Invested in the business venture(s) anyway

_____ Chosen not to invest in the business venture(s)

8. If the Angel Investment tax credit were to expire in Illinois, your organization will:

_____ Continue investing in business ventures in Illinois

_____ Invest in fewer business ventures in Illinois

_____ Stop investing in business ventures in Illinois

Please turn over to the other side.
1. On a scale of one to ten, how would you rate Illinois’s business climate relative to other states? (1 being the worst in the U.S. and 10 being the best). Please circle one.

1  2  3  4  5  6  7  8  9  10

2. Do you think there are any measures that could be taken to improve Illinois’s business climate? If so, what are they?

3. How did you find out about the Angel Investment tax credit?

4. What do you think are the strengths and/or weaknesses of the Angel Investment tax credit program?

5. Do you think the Angel Investment tax credit program could be improved in any way? If so, how?

6. Do you have any other general comments about Illinois’s business climate or the tax incentive programs it currently offers?