

Economic Development

In 2011, lawmakers dramatically changed the state’s economic development infrastructure.

They passed AB 449, which created a new cabinet-level position for economic development, restructured the state’s economic development efforts in a more top-down manner and created a “Catalyst Fund.” The declared purpose of the Catalyst Fund is to provide financial incentives to firms considering moving to, or expanding in, Nevada.¹ Lawmakers in 2019 reduced appropriations toward the Catalyst Fund, but left in place a program that allows the Office of Economic Development to issue up to \$5 million annually in transferable tax credits, effectively accomplishing the same purpose.²

Lawmakers should question whether a state-directed approach to economic development is superior to a market-directed approach and whether bureaucrats are better able to identify viable opportunities for successful investment than private entrepreneurs.³

Key Points

State-directed economic development is inefficient. When production decisions are shaped by politicians instead of market forces – i.e., consumer decisions – society’s capital stock is likely to be invested in ways that serve the best interests of politicians, not consumers.

Public subsidies for private firms promote cronyism and are unconstitutional. The availability of public subsidy through the Catalyst Fund deters productive, entrepreneurial activity in favor of rent-seeking. As a result, incestuous relationships develop between politicians and private industry that can devolve into outright cronyism. During the 19th century, multiple states’ experiences with such cronyism prompted them to pass constitutional amendments prohibiting the giving of public monies to private corporations. In fact, Article 8, Section 9 of Nevada’s constitution explicitly forbids the type of subsidy scheme used by the Catalyst Fund:

The state shall not donate or loan money, or its credit, subscribe to or be, interested in the Stock of any company, association, or corporation, except corporations formed for educational or charitable purposes.

Steps can be taken to promote economic development, but AB 449 was the wrong approach. Private entrepreneurship is the best means to overcome the impact of recession and to build a sustainable economic future. However, in many ways, Nevada’s policy environment has been and remains hostile to the formation of new, small businesses. Licensing, zoning, and filing requirements, labor market strictures, and a cumbersome regulatory apparatus discourage aspiring entrepreneurs and impede economic recovery.

Tax giveaways force a higher tax burdens onto non-privileged businesses. In late 2014 and 2015, Nevada lawmakers convened special sessions to approve a combined \$1.5 billion in tax giveaways for two specific manufacturing firms, Tesla Motors and Faraday Future. In between those special sessions, lawmakers met in general session to raise the modified business and commerce taxes on Nevada businesses lacking such political connections. Politically unconnected businesses are thus forced to cross-subsidize competitors armed with political clout.

¹ Nevada Legislature, 76th Session, Assembly Bill 449.

² Nevada Legislature, 78th Session, Senate Bill 507; See also: Michael Schaus, “Transferable Tax Credits,” NPRI commentary, December 13, 2016.

³ John Locke, *The Second Treatise of Civil Government*, 1690; see also, Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 1776.

⁴ Nevada Governor’s Office of Economic Development, *Annual Catalyst Report, FY20 and Annual Report, FY21*.

Subsidies are taken when they're available. In FY20 and FY21, the Office of Economic Development granted tax abatements for new locations of Foot Locker, T-Mobile and Kroger. It also awarded cash from the Catalyst Fund to Petco and Starbucks. It's debatable whether these entities would have installed their new locations without subsidy.⁴

Recommendations

Clarify and restrict the mission of the Office of Economic Development. Nevada does not need a cabinet-level agency to dole out patronage. However, the Office of Economic Development could take meaningful steps to ensure future economic development if its mission is changed to identify and correct policies that unnecessarily impede new business formation.

Clear the path for entrepreneurs. Nevada Policy has produced a comprehensive guide to economic development detailing a series of highly specific policy changes that would facilitate sustainable growth and economic development in Nevada.⁵

Catalyst Fund Awards (FY20)

Recipient	City/County	Jobs	Average Wage	Average Wage
Take Two Interactive Software	Las Vegas	150	\$ 18.00	\$ 600,000
Cristek Interconnects, Inc.	Douglas Co.	50	\$ 24.93	\$ 200,000
Nicholas & Company	North Las Vegas	125	\$ 26.25	\$ 625,000
SolarCity Corp.	Clark Co.	800	\$ 21.31	\$ 1,200,000
Ardagh Metal Packaging, Inc.	Storey Co.	118	\$ 24.18	\$ 630,000
New Logic Research	Douglas Co.	30	\$ 30.01	\$ 75,000
Torchmate-Lincoln Cutting	Reno	40	\$ 17.73	\$ 125,000
Barclays, PLC	Henderson	1,005	\$ 14.25	\$ 1,875,000
Kareo, Inc.	Las Vegas	300	\$ 20.54	\$ 750,000
Garlock Printing	Reno	175	\$ 18.04	\$ 77,500
Petco	Reno	44	\$ 21.00	\$ 100,000
Clear Capital	Reno	400	\$ 31.86	\$ 1,000,000
Scientific Games Corporation	Clark Co.	250	\$ 22.00	\$ 1,400,000
Grand Rounds	Reno	70	\$ 30.43	\$ 150,000
Barclays, PLC II	Clark Co.	150	\$ 33.71	\$ 1,125,000
Bently Heritage	Douglas Co.	12	\$ 51.90	\$ 99,000
Starbucks Coffee Co.	Douglas Co.	100	\$ 21.16	\$ 250,000
Polaris Industries, Inc.	Fernley	50	\$ 21.95	\$ 100,000
Cyanco Company, LLC	Winnemucca	20	\$ 44.53	\$ 140,000
Figure Technologies	Reno	150	\$ 30.01	\$ 600,000
Aqua Metals, Inc.	Reno	50	\$ 67.73	\$ 150,000
Hyperloop	North Las Vegas	100	\$ 30.00	\$ 750,000
Marys Gone Crackers	Reno	40	\$ 25.00	\$ 100,000
Stixis Technologies Inc.	Las Vegas	140	\$ 25.00	\$ 1,750,000
Xtreme Manufacturing, LLC	Las Vegas	200	\$ 18.50	\$ 600,000
Scientific Games	Las Vegas	200	\$ 34.00	\$ 1,825,000
Caremark, LLC	Las Vegas	100	\$ 25.73	\$ 350,000
KRS Global Biotechnology, Inc.	Las Vegas	160	\$ 25.00	\$ 640,000
Total		5029	\$ 27.67	\$ 17,286,500

Source: Nevada Public Employees' Retirement System.

⁵ Geoffrey Lawrence and Cameron Belt, "The Path to Sustainable Prosperity: Removing the Obstacles Facing Nevada's Entrepreneurs," NPRI Policy Study, January 2013.