ECONOMY

COMMENTARY

Subsidies to semiconductor companies are ineffective: Invest in the workforce instead

JANET BAUER NHI NGUYỄN

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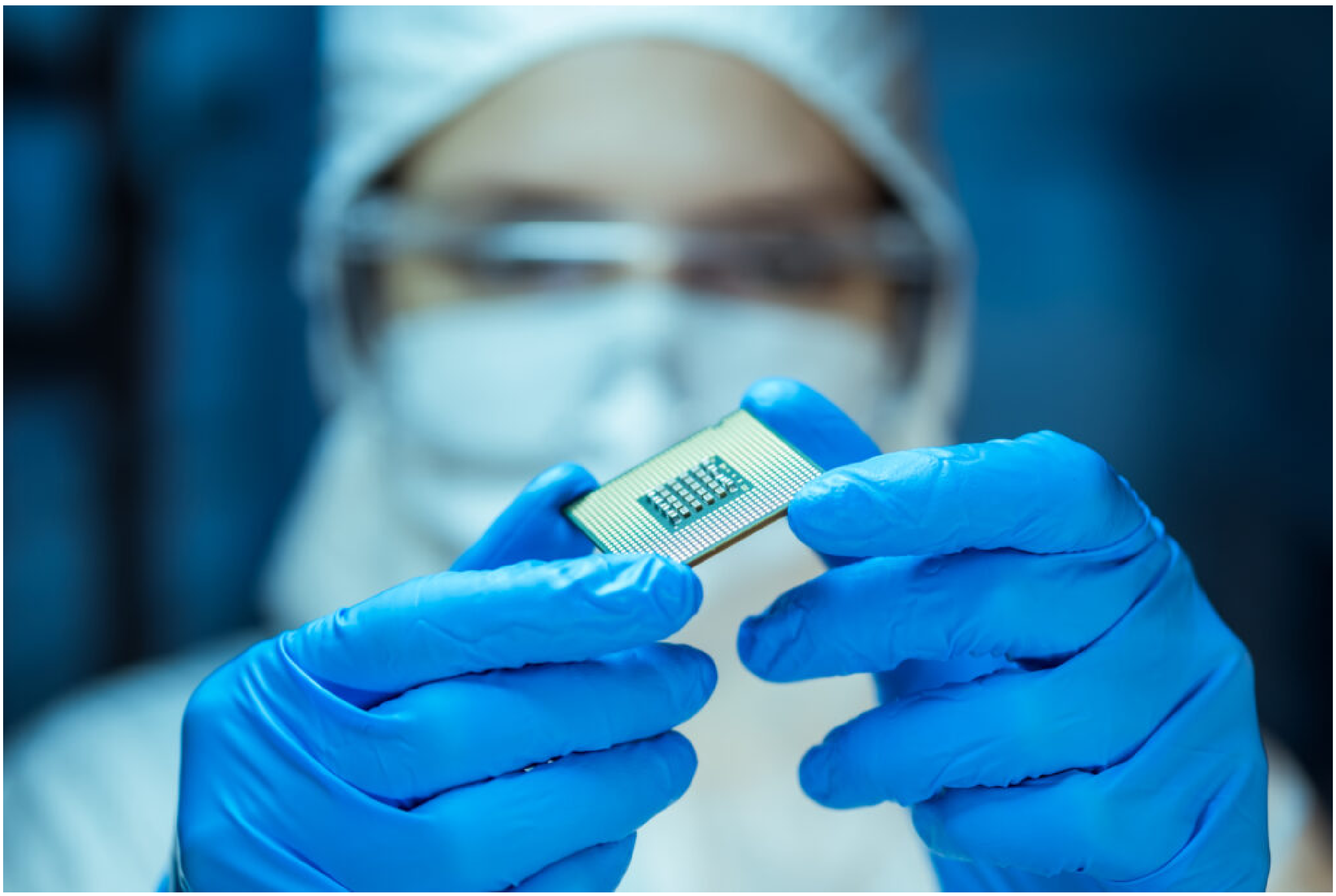

An engineer analyzes a computer chip in a lab. Oregon is well-positioned to take advantage of federal funding for the expansion of the industry, experts say. (Getty Images)

Forests grow best in healthy soil. The same goes for Oregon's Silicon Forest, the state's high-tech cluster. Its soil is the infrastructure and skilled workforce that allows the industry to thrive.

That is why, in putting together a package of incentives to attract semiconductor manufacturers, the Oregon Legislature should resist calls for direct subsidies to corporations, which are often ineffective. Instead, lawmakers should prioritize investments that will deepen the state's talent pool, promote equity and strengthen its infrastructure.

The urgency to develop a package of incentives for semiconductor manufacturers stems from the federal CHIPS Act. Through this legislation, the federal government is offering tens of billions of dollars to semiconductor companies to expand production in the U.S. The CHIPS Act requires companies applying for funding to secure state incentives, though there is wide latitude in what states can offer.

One of the best things Oregon can offer is to deepen its already robust talent pool. A skilled workforce is the number one factor that semiconductor manufacturers look for when deciding where to locate, according to many in the industry. Having an ongoing supply of talent is essential to sustaining a competitive semiconductor ecosystem. While Oregon already has one of the highest concentrations of semiconductor employment in the U.S., Oregon needs to up its game to meet current and future workforce demands.

Thus, Oregon should invest heavily in science, technology, engineering and math, or STEM education, from K-12 schools to community colleges to public universities. Our state should invest in worker training, using strategies to reach Oregonians traditionally underrepresented in the industry. Such investments not only make Oregon a more attractive place for the high-tech sector, they also directly improve the lives of Oregonians and reduce economic disparities by race and ethnicity.

Another crucial area for investment is our community infrastructure. Advanced manufacturing hubs require highly efficient and reliable infrastructure systems. Semiconductor production in particular requires huge amounts of electricity and clean water. In this respect, Oregon has catching up to do to make electricity, water, and other infrastructure more reliable and capable of managing increased demand. Again, this kind of investment can benefit not only this industry, but all Oregonians.

On the other hand, what is unlikely to pay off is direct subsidies for corporations. Research shows that state and local corporate subsidies – grants or tax credits, for example – often fail to achieve their goals. A meta-analysis of dozens of studies found that direct subsidies had no effect on decisions to locate, expand or remain in place for the vast majority of firms receiving subsidies. While corporate subsidies do little to incentivize corporate behavior, they eat up resources that the state could spend on schools or other vital services — services that the businesses themselves rely on.

Oregon's own experience points to ineffective and wasteful tax credits. In the mid-2000s, the state put the Business Energy Tax Credit program on steroids, an effort to incentivize renewable energy. The costs to the state quickly got out of hand, and there was scant evidence the incentives worked.

If Oregon lawmakers opt to ignore the record of failure of corporate subsidies, they should at least minimize the risk to Oregonians. There are a number of ways the Legislature can do so.

First, target the subsidies to the semiconductor industry. Lawmakers should reject the corporate lobby's calls for subsidies for businesses broadly.

Second, don't give a blank check. The Legislature should establish ahead of time a limit on how much it will spend on corporate subsidies, to avoid runaway programs like the tax credit fiasco.

Third, require substantial community benefits. Agreements should require that jobs pay good wages and that recruitment reaches communities with barriers to employment.

And fourth, safeguard the public purse. For instance, the subsidy should come with a requirement that Oregon gets its money back if the company fails to live up to its side of the deal.

Ultimately, the smarter strategy would be for Oregon lawmakers to avoid new subsidies for corporations, and instead prioritize investments in people and place. It's those kinds of investments that will make the state's high-tech sector and Oregonians thrive in the future.

JANET BAUER

Janet Bauer is the director of policy research at the Oregon Center for Public Policy, where she focuses on policies that improve the quality of jobs in Oregon and raise the incomes of residents. When she is not researching data, there is a good chance she is out in nature birdwatching.

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NHI NGUYỄN

Nhi Nguyễn is a policy analyst with the Oregon Center for Public Policy. In her free time, she hunts for the best Bún bò Huế in Portland, eats a slice or two of durian cake, or pretends to exercise.

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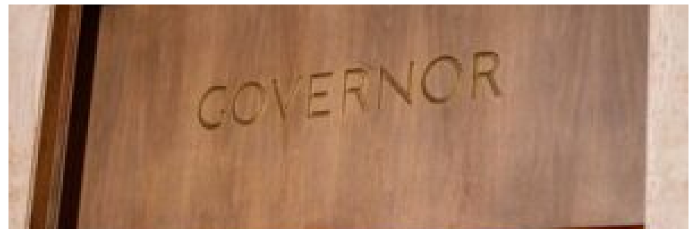

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