

Tax increment financing, economic development professionals and the financialization of urban politics

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Abstract

Scholars argue that the state has facilitated the expansion of the financial sector, but focus largely on how politics transforms financial markets. I explore a new political mechanism of financialization, by drawing upon an ethnographic study of economic development in two Rust Belt cities and analyzing usage of tax increment financing (TIF), a practice that allows cities to securitize projected increases in property tax receipts and create bonds similar to structured asset-backed securities (e.g. mortgage-backed securities). Cities initially used TIF as a last-resort financing strategy, but the practice has transformed urban politics by creating opportunities for economic development professionals to exercise jurisdiction over municipal budgets. Further, TIF structures other roles that development professionals play by giving them incentives to use TIF in ways that are not aligned with the city's fiscal outlook and lock them into ever-higher rates of TIF spending. This analysis illustrates a recursive relationship between financialization and the state: public policies have transformed financial markets, but reliance on financial markets can also transform political institutions in ways that promote further financialization.

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