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LeRoy, Greg (2005). *The great American jobs scam: Corporate tax dodging and the myth of job creation*. San Francisco: Berrett-Koehler. Condensation by James Allison, January 2006.

This book deals with the transfer of public money to private hands in return for a promise of economic development, often in the form of job creation. The author characterizes this process as a scam and a myth because its proponents typically understate the costs and overstate the benefits.

Chapter 1 The Tax Dodgers Are Coming! The Tax Dodgers Are Coming!

Scam #1: Job blackmail, or how to get paid to do what you planned to do anyway.

Here are the players in one scenario: A company that demands big tax breaks as the price of its continued residence; the business lobby; an economist hired to make rosy forecasts that overshadow the sober analyses of a government commission; a governor's aide turned lobbyist; and union leaders convinced for now that the tax breaks in question will save union jobs.

This scenario fits the scam that Raytheon pulled on the state of Massachusetts in 1996. Five months after the agreement the company promises began to unravel, when Raytheon offered buyouts to 4,400 of its hourly employees. There followed some mergers, acquisitions and restructuring. Within two years the company's Massachusetts workforce had decreased by 21%, and another 1,600 were gone the year after that. The union charged that Raytheon had reneged on the deal, but the company pointed to a convenient loophole that the legislature declined to close. In the end the scam cost Raytheon a total of \$573,539, including consultants' fees, for a tax break worth \$21,000,000 a year.

Scam #2: Create a bogus competitor.

An executive who used this scam admitted during a deposition that although his company had already decided to locate in City A, it still spent much time hearing the pitches of Cities B, C and others so as to pry as much as possible out of City A.

Incredibly enough, public exposure of such scams may not suffice to head them off. In the late 1990s the Marriott hotel chain threatened to move its headquarters from Maryland to Virginia, but actually had no intention of moving. When a reporter uncovered and published the scam, some Maryland legislators bemoaned the state of affairs, but the legislature still coughed up a multimillion dollar package for Marriott.

Scam # 3: Payoffs for layoffs.

New York City probably holds the record for this kind of scam, in which the city pays "job retention subsidies" to a company that turns around and lays people off. In one study of 80 such companies, at least 39 later announced major layoffs or the sales or mergers that usually augur major layoffs. A close study of 10 companies revealed a post-subsidy loss of over 3,000 jobs.

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Scam #4: Take the money and run.

Call centers are often touted for their ability to create jobs. To set them up requires no expensive equipment. They can go up fast, but so too can they leave overnight.

Based in Tampa, Sykes Enterprises routinely receives subsidies for setting up its many call centers both here and abroad. In 1994 in Greeley, Colorado, Sykes got about \$915,000 worth of subsidies from state and local governments in land, site improvements, training grants, an interest-free loan, and tax and fee waivers. Employment peaked at 580, but the center closed in 2002 with a loss of 400 jobs. In Ada, Oklahoma, a Sykes center opened in 1999 after the city gave the company \$2.5 million in cash and land. The center closed in 2004 with a loss of over 400 jobs.

Sykes has left the same fingerprints in Klamath Falls and Milton-Freewater (Oregon), Bismarck (North Dakota), Hays and Manhattan (Kansas), Scottsbluff (Nebraska), Hazard and Pikeville (Kentucky), Eveleth (Minnesota), and Palatka and Marianna (Florida). As Florida attorney Timothy Keyser put it: "That seems to be how that corporation makes its money. They dangle jobs to jurisdictions that pay them money." (LeRoy, 2005, p. 21.)

Scam #5: Exploit the war among the states.

In 1985 Illinois made a \$249 million deal with Mitsubishi Motors to open an auto-assembly plant in the state. Other foreign automakers soon followed in this first big wave of foreign auto investments. The predominant Japanese motive was to avoid any protectionism driven by public resentment of rising auto imports. And to quell any threat of domestic content legislation, the Japanese made friends throughout the Senate by siting their plants in states densely populated with unionized auto workers. Just as General Motors had done in siting its Saturn plant in Tennessee, the foreign companies, guided by squads of site consultants, played one state against another so as to leverage the best package of subsidies.

When the threat of protectionism ebbed with the election of Clinton in 1992 and the passage of NAFTA in 1993, foreign automakers began to site their plants in right-to-work states, where unions were weak and wages low. Thus, big subsidies from U.S. taxpayers helped to build factories whose presence blunted domestic content legislation and other trade reforms, and contributed greatly to our commodity trade deficit.

What did Illinois get for its \$249 million? It did not get the promised ripple effect throughout the state economy. Since 1985 Illinois has actually lost auto parts jobs.

Scam #6: Certified Capital Companies: Much ventured, little gained.

Certified capital companies (CAPCOs), a 1980s invention of Louisiana insurance lobbyists, have cost nine states and the District of Columbia over \$1.5 billion in tax credits, with no apparent gain to the public. This scam starts when an insurance company invests money in a CAPCO. In return, the state gives the company, for each dollar invested, a tax credit worth 10% of the investment every year for 10 years. That credit is applied to the tax the company would pay on premiums for policies sold in the state.

There's more. The insurance company negotiates a guaranteed rate of return on its investment in the CAPCO. To make good on the guaranteed return, the CAPCO would normally put much of the money, say 40%, into low risk investments, such as treasury

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bonds. That would leave the CAPCO with 60% of the money to loan out to short-term low-risk ventures; once it has loaned out 100% of the original amount, the CAPCO becomes de-regulated and may pay out profits.

The beauty of this scam is that the state absorbs all of the risk while the CAPCO has no comparable obligation, such as a job-creation requirement. Indeed, studies in New York and Florida showed that companies with CAPCO loans actually lost jobs. A Colorado audit revealed excessive CAPCO expenditures on overhead--offices and management fees.

Their understanding of the CAPCO has inspired several experts to work against its further spread as a "raid on state treasuries" and "a crummy deal for taxpayers." In the words of the Colorado state treasurer, "It's a scam." (LeRoy, 2005, p. 26.)

Scam #7: Pirate thy neighbor's jobs.

In the 1990s California experienced a recession that tempted neighbors to entice manufacturers to pull up stakes and desert the Golden State for theirs. Many other states across the country have endured or encouraged some such job-flight episode. Many economists would call this a zero-sum game: It creates no new jobs, just a reshuffling from one state to another. Some have even called it a net-loss game: When companies get tax breaks for moving jobs around, we end up with less tax revenue for education, infrastructure and other public goods that lie beyond the exclusive grasp of the footloose employer.

Scam #8: Pay poverty wages and stick taxpayers with hidden costs.

To put it simply, this is where cities subsidize poverty-wage jobs and call it economic development. The practice is widespread.

Between 1990 and 1997 Los Angeles' Community Redevelopment Agency spent \$193 million on commercial development, but two-thirds of the money financed retail projects that created jobs at poverty wages. For example, in a project that received subsidies worth \$53,725 per job, front-line workers averaged \$6.50/hour.

The practice is not exclusively urban. A study of similar projects all over Minnesota showed that nearly two-thirds of the subsidized companies paid so poorly that a family of three would qualify for Medicaid. Over a quarter paid so poorly that the family would qualify for food stamps.

Kentucky makes no secret about it. In one two-year period the state gave tax breaks to at least 31 companies with average wages below the federal poverty line for a family of four. This was not because the state was stingy: In ten cases the tax credits were more than \$100,000 per job. When Cintas, a uniform maker, opened a plant in Hazard in 1993, its incoming gifts included a building worth \$1.6 million, equipment worth \$2 million and a pass on corporate taxes. Its workers got \$5/hour. Newspaperman Bill Bishop, of the *Lexington Herald-Leader*, called it "rural ghettoization," where the wages are too low to create a tax base; where low-wage industries fight to keep high-wage industries out; where deteriorating schools and roads repel prosperous people; where so many forces push the economy into a downward spin that it has little chance of recovery. (LeRoy, 2005, p. 29.)

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The champion may be Wal-Mart. According to data provided by Congressional staffers, a Wal-Mart store with 200 employees costs federal taxpayers \$420,750/year. The costs include programs for children's health insurance, Section 8 housing, school lunches, the earned income tax credit and low-income energy assistance. (Condenser's note: With all of that corporate welfare coming its way, why are Wal-Mart's prices so high?)

Scam #9: Exaggerate the "ripple effect" benefits.

When they announce lavish subsidies, politicians often justify them with a promise of big ripple effects on job creation. Journalists dutifully report, and citizens typically accept such claims without question. The trouble is, the claims are often exaggerated.

For one thing, they are often misread. The estimated ripple effect typically includes the original job, so a claim of three jobs is only one direct and two indirect jobs. But even that is probably pie in the sky: Experts say that any claim above two and a half is suspect (one direct job, and one and a half indirect jobs).

Another problem is that the list of promised indirect effects often leaves out indirect costs to the taxpayer: Additional jobs and job-holders will require more schools, roads, water and sewer lines, teachers, public safety officers, trash pickups and other services. Growth costs money, over and above the direct subsidies to the company.

For example, take Illinois' romance of Boeing in 2001. To attract the Boeing headquarters to Chicago, the state offered a huge subsidy carrot that it tried to justify with a promise of five new "high end" jobs for every Boeing headquarters job. This number came from a branch of Arthur Andersen, the now defunct accounting firm made famous by its Enron connection.

Implausible on its face, this number also raised eyebrows because it differed so greatly from the state's estimate of the ripple effect for the retention of Sears' headquarters in Chicago. In 1989, the state predicted that if Sears left, Chicago would suffer an indirect loss of 0.4 jobs for each Sears job lost directly. In a sad footnote, the state never explained why its Department of Commerce and Community Affairs thought that Boeing would make 12 times the ripple that Sears would have made. An Illinois taxpayer tried to find out why, but the state rejected a Freedom of Information request, and Illinois courts concurred.

Incidentally, Boeing did move its headquarters to Chicago, but there is reason to doubt that it did so because of the \$56 million in proffered subsidies--much more than the subsidies offered by Denver (\$18 million) and Dallas-Fort Worth (\$14 million). What drew Boeing were the city's quality of life and its cultural, financial, business and service assets.

Scam #10: Subsidize privatization of public jobs.

Today private prisons in the state and federal systems hold about 95,000 inmates, or 6% of the prison population. Among the 60 biggest ones, 73% have received job-creation subsidies: \$628 million in bonds and securities for construction, property tax abatements, training grants, enterprise zones, infrastructure and land subsidies. Some of these subsidies evade taxpayer approval: As lease-revenue bonds and certificates of participation require no voter referendum, they permit no democratic choice on the financing of a private prison in one's community.

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Despite all of these subsidies, private prison companies often pay their non-union employees lower wages and benefits than the public agencies they displace. Of course their daily rates include profit margins.

The biggest company, Corrections Corporation of America (CCA), built a prison in Youngstown, Ohio. Youngstown's mayor helped recruit CCA; the city gave the company 100 acres of land for \$1, and \$500,000 worth of free water and sewer hookups.

The prison opened in 1997, and closed in 2001 when the CCA contract was not renewed. It closed in the aftermath of management problems, broad daylight escapes by convicted murderers, lawsuits, investigations and the finding by a government corrections trustee that over half of the senior officers had no prior experience in corrections.

Youngstown's mayor changed his tune: "It's been a nightmare. [CCA's] credibility is zero." (LeRoy, 2005, p. 32.)

Scam #11: Bust the union.

In their flight south, away from union labor, many northern companies went for the lure of a Mississippi invention, a state bonding authority. This authority allowed a locality to float a tax-free, low-interest bond to build a plant for lease to the company. As the public would own the facility, there would be no property taxes.

Once upon a time, runaway shops could even get their mad money from Uncle Sam. In 1994 Wisconsin taxpayers hit the ceiling when they discovered that Briggs and Stratton, a maker of small engines, was about to move 2,000 jobs south with the help of federal money from the Department of Housing and Urban Development. Wisconsin congressmen stopped HUD's financing of interstate piracy. The jobs departed anyway and, once de-unionized, their wages and benefits fell.

For many of these factories the southern sojourn was brief, as they soon moved on to Mexico, China or the Caribbean. For example, in South Bend, Indiana, Bendix escaped the United Auto Workers Union by jumping its auto-parts plant to South Carolina in 1982. In 2004, ever footloose, it shed 400 workers as it jumped again, from Dixie to Mexico.

Scam # 12: Soak the taxpayer.

Some subsidy programs accomplish little more than a transfer of wealth to corporate shareholders.

In Louisiana Exxon received 251 property tax exemptions in 10 years, but created no new permanent jobs.

Connecticut spends lavishly to create jobs, but in 2002 a study of some 1,200 subsidized companies revealed a loss of jobs by 41% of them. Companies involved in the biggest state program created only 9% of the number promised. New jobs had an enormous average subsidy, \$367,910 per job.

Enormous? Try Jeb Bush, governor of Florida, who took federal money meant to help with budget shortfalls and used it instead for a new biomedical research facility. The deal is supposed to create 545 jobs, for an average subsidy of \$1.9 million per job.

North Carolina, once a frugal state, joined the subsidy race to the bottom in 1996, after it lost a few competitions to other states. A law passed that year enabled a subsidy to FedEx for \$77,000 per job (mostly part time jobs), and another to Nucor steel for \$536,000 per job and a 25-year pass on state income tax.

Dell Inc., the computer giant, roots in the subsidy trough like few other companies in North Carolina. The governor's office negotiated with Dell a new assembly plant and distribution center, a deal announced in 2004. Dell would invest \$100-115 million and hire at least 1,500 workers within five years. In return, the state promised subsidies worth \$242-267 million. That would be about two and a half times the cost of the plant and warehouse--the biggest subsidy package in the history of the state, where a subsidy worth 25% of the facility had been considered large.

It gets even worse, but not for Dell. Over 80% of that record-setting subsidy is tied to neither jobs nor investment. Instead, the good citizens of North Carolina will give Dell a \$15 tax credit for every computer or peripheral produced in 2006, and \$6.25 for every one produced from 2007 to 2019. They will also subsidize infrastructure, training and a big chunk of employees' personal income taxes. In addition, Dell used a bidding war among counties to leverage another \$37.2 million from the lucky county that won.

Dell's aggressive bargaining has inflamed some advocates for small businesses. State files, released in response to lawsuits for disclosure, showed that Dell had sought many big subsidies--including freedom from all income tax, citing its home state, Texas, which has no corporate income tax. Some state negotiators worried about the precedent: If the state followed suit for IBM, Merck, Bayer and other big companies, who would pay the taxes? Had they overestimated the economic impact? And what about the political dangers?

But Dell had been there before. In Nashville it wangled a 40-year property tax abatement, perhaps a record, among other pleasant subsidies. In Ohio it received a warehouse subsidy that had been denied to 20 other companies. In the words of an Ohio official: "If you've got a good name, then you can play a good game." (LeRoy, 2005, p. 37.)

Scam #13: Threaten to leave New York City.

The Big Apple's image as the home of streetwise sophisticates conflicts with its record as the job extortion capital of the U.S. The city's subsidy-seeking corporations all read from the same script: Let it be known that you're thinking of moving to New Jersey or Connecticut, let a few mayors pitch some deals, look at some sites, then go back home and threaten New York.

A wide range of corporations, from banks and stock exchanges to TV networks and insurance companies, have turned the script into gold. The author tabulates 54 major deals of this kind between 1988 and 2001, wherein the retention subsidy proffered by the city averaged \$51.3 million. They ranged from a paltry \$2.1 million to retain bookseller Barnes and Noble, to a gargantuan \$940.0 million to retain the New York Stock Exchange (both on Mayor Giuliani's watch).

The stock exchange deal eventually collapsed, but not before the taxpayers were billed \$145 million for land, buildings, tenant relocation, bonds and architectural fees. Given

the nature of Wall Street business, the threat was never plausible, but its implausibility failed to deter Giuliani until the bitter end. Moreover, many of the deals he negotiated were deplorably soft. For example, the \$28.6 million contract with Merrill Lynch allowed the company to lay off 1,413 of its 9,693 employees before any penalty kicked in. Early signs suggest that Giuliani's successor, Mayor Bloomberg, may not be such an easy mark.

Scam #14: Ride Enron's coattails.

Nebraska has recently been plagued by state budget deficits related to a practice of retention subsidies begun in 1985, when Ken Lay merged his Houston pipeline firm with an Omaha pipeline company. Civic leaders in Omaha who feared that he might move the headquarters saw their fears realized the following year, when the board changed the company name to "Enron" and announced a move to Houston. The Omaha mayor's attempt to change the company's course ended when Ken Lay walked him to a window and showed him the sleek building that Houston would rename "Enron Tower" and give to Enron, rent free, for three years. Within two years 2,000 headquarters jobs moved from Omaha to Houston.

Nebraska leaders, shaken by the flight of jobs, became more vulnerable to threats of further job loss. In 1986 ConAgra, the agribusiness giant, threatened to move its Omaha headquarters to Nashville unless it got big tax breaks. The Nebraska legislature debated the matter vigorously, but eventually passed the ConAgra wish list, which included corporate tax breaks and a cut in personal income tax. This opened the flood gates for other corporations to apply for their own tax credits. To date, the ConAgra wish list has cost Nebraska over \$150 million/year in tax credits and tax refunds. All of the many attempts to reform the law have failed, mostly in committee.

Chapter 2 Site Location 101: How Companies Decide Where To Expand Or Relocate

The three variables that determine site location are access to key inputs and proximity to suppliers and customers. To identify acceptable locations a company may hire a site location consultant to do the research, or assign the job to one of its own divisions, typically real estate or finance. A company management team provides the consultant with information about operations, sales and the like. Subsidies play only a negligible role in site location, but the system encourages companies to take all of the subsidies they can as they go to where they would have gone anyway.

For example, Seattle had the cheap hydroelectric power that Boeing would need for its metallurgy. Silicon Valley had the venture capital and the engineering schools that emerging high-tech companies would need. Headquarters need ready access to centers of finance or marketing, major airline hubs, cultural amenities and a high quality of life. Food processors need to be close to farms, ranches, interstate highways and railheads. Newly emerging companies may cluster together so as to share talent pools. Utilities and hospitals, tied to their markets, move rarely. Highly skilled labor is especially important to companies that face technological change. As the Baby Boomers retire, the supply of skilled labor will become increasingly important. Depending on the company's needs, any of these variables might define a make-or-break issue that can immediately reduce the possibilities to a small number of plausible locations.

Taxes: The Least Important Factor

Taxes are relatively unimportant. Many states have already cut corporate taxes, and subsidies cut them even further. Thus, taxes are dwarfed by the other variables already mentioned, such as labor, transportation, utility and occupancy costs. A mountain of evidence indicates little relationship between taxes and economic growth. Specifically, it takes a 5% drop in taxes to create a 1% rise in economic growth. In other words, economic growth is so unresponsive to taxes that cities and states that want to grow jobs should probably forget about tax breaks, and improve their business basics. They might even be better advised to cater to personal whims, which count especially with the smaller companies. For example, executives like short commutes. Among 38 companies that left New York City, 31 moved closer to the CEO's home. Some executives favor golf courses or good schools for their children.

As the search narrows, one veteran consultant creates a 10-year spread sheet that shows the company's projected costs for each of the competing locations. This information comes with a cautionary note: Do not give much weight to differences in economic development subsidies, as the business basics will wash them out in 10 years. In the decision to locate a manufacturing project, labor costs should weigh 36%, transportation 35%, utilities 17%, occupancy 8% and taxes 4%. In the decision to locate an office project, labor costs should weigh 72%, transportation 0%, utilities 8%, occupancy 15% and taxes 5%. Advice based on federal data would give even less weight to taxes: According to Internal Revenue Service statistics, state and local taxes account for only 0.8% of costs on average.

How Public Perceptions Get Distorted

When the company comes calling, the development official knows little about the long and complex chain of site-selection decisions that have already been made in favor of his or her town, county or state. The unspoken decision has already been made, but one final detail remains. When the talk turns quickly to subsidies, the official naturally assumes that the decision will go to the best subsidy dancer. Out pour the two great contradictions: First, here are the wonderful schools, roads, workers, amenities and other public goods our taxpayers have provided. Second, here are all of the ways we will help you dodge your fair share of the taxes that make those goods possible.

What about those other cities? Simple. Those are the straw men the company uses to extort more subsidies from the favored city.

Public Officials and the "Prisoners' Dilemma"

A prominent site consultant revealed a trade secret: Pit two nearby cities against each other. "In the preferred area, tie incentive negotiations to a couple of sites, ideally in separate communities." (LeRoy, 2005, p. 55.) Students of game theory will recognize this as the "prisoners' dilemma," where two partners in crime, separated by the police, will go free if each keeps silent. Instead, each succumbs to the offer of more lenient treatment if he will rat on the other, in which event each goes off to prison.

Site consultants work this game by means of an understanding that neither city will compare notes or cooperate with the other. The way to the lowest subsidy is for each city to stand by its original offer, but each tries to improve its chances by raising its original offer.

This is not unlike the way Boeing leveraged \$56 million from Chicago and the state of Illinois. Given the paltry cost of this scam, its return on investment staggers the imagination.

Consultants, Commissions, Correlations and Objectivity

Just how objective are those site location consultants? As more and more of them work for a percentage of the subsidy package, we can expect less and less objectivity. The potential cost to taxpayers is obvious, but companies may also wonder whether their consultants are steering them to the best company locations, or the best consultant locations.

Motives aside, subsidies affect only a small percentage of site locations. As their bearing on economic development is feeble at best, they are wasted windfalls that would be better spent on job skills or infrastructure.

Additional Evidence That Subsidies Don't Matter

The effect of subsidies is contentious. For example, in Vermont a group appointed to dispense subsidies insisted that none of its deals would have gone through without the help of its tax break subsidies. However, only 2 of the 21 subsidized companies were willing to attribute their expansions to their subsidies. It also appeared that the ones who dispensed the subsidies had made little effort to verify their claims. In upwards of a dozen such program investigations state auditors "found or opined that companies would have invested without the subsidies" (LeRoy, 2005, p. 60).

The author cites individual examples that confirm the auditors' skeptical view of subsidies. David Packard decided to build a Hewlett-Packard plant in Idaho instead of Oregon, although Oregon had offered tax concessions that Idaho had not. According to Cecil Andrus, then Governor of Idaho, he had impressed Packard by asking how he would feel a few years hence, as an established corporate citizen, about subsidizing the next company that came knocking on Idaho's door. Hewlett-Packard became a fine corporate citizen, with investments in sewage treatment, recycling and heavy metals extraction.

Why did Toyota choose San Antonio over cities in other states that offered much bigger subsidies? San Antonio offered proximity to the biggest truck market in the country and, with its offer to build a second rail line, competitive shipping. A senior Toyota executive added that it was foolish to squeeze a community for incentives. In the long run it was better to help the community from the start. Similar stories are told about American Express staying in Lower Manhattan after the 9/11 attacks, Citgo moving headquarters jobs from Tulsa to Houston, and America Online staying in Virginia to be close to the kind of labor it needed.

Money Left on the Table

As additional evidence that subsidies don't matter, the author points out that companies often leave subsidy dollars on the table, uncollected. This happens so often that a market has grown up for consultants who help companies get all of the tax giveaways they can. Case studies of this market make it clear that the subsidies are simply windfalls, and not decisive elements of site location.

Cabela's: Subsidies Increase Our Profits

Cabela's does more direct sales of outdoor sporting goods than any comparable marketer in the U.S. In a 2004 filing with the Securities and Exchange Commission, where truthfulness is enforced with the threat of criminal prosecution, Cabela's said it used subsidies to get higher profits.

Cabela's depends heavily on a practice called "tax increment financing" (TIF), a bane of school financing. If a company makes improvements that would increase its property or sales tax, these additional revenues would normally go toward the support of schools and other local goods and services. But under a TIF arrangement, these additional revenues support something else: repayment of the bonds that subsidize the company. In effect, TIF subsidies make Cabela's stores cheaper to build, and more profitable--at the expense of local schools and other local goods and services.

In defense of its use of TIF, Cabela's might contend that its new store will serve the community as a new tourist destination. As such, it would draw in enough shoppers from out of state to garner significant new revenues from sales tax and hotel/restaurant business. A Pennsylvania newspaper, the *Allentown Morning Call*, attempted to evaluate the public benefits generated by a Cabela's store that opened in 2003 in Hamburg. The paper found that the state and local agencies that had ballyhooed the taxpayer benefits of the original deal were keeping no data on sales tax revenue or local property tax revenue. As for tourism, downtown merchants reported little spillover traffic, and a reporter found that over two-thirds of the vehicles in the parking lot bore in-state licenses. Cabela's answer was that less than a third of the store's sales were to Pennsylvanians. A few competing stores said that Cabela's had hurt them.

The paper had to conclude that it had not been able to make a decisive call, because Pennsylvania officials simply lost interest once the ribbon was cut and the photographers went home. The responsible officials simply did not care whether their triumphant deals were actually a waste of taxpayers' money, and their failure to record the necessary data made it difficult or impossible for anyone else to make the call.

Chapter Three Fantus and the Rise of the Economic War Among the States

Fantus Factory Locating Service, founded in the 1930s, dominated the site location industry for several decades and survives today in Chicago as an affiliate of accounting firm Deloitte & Touche. It facilitated the relocation of thousands of workplaces, mostly from the Northeast and Midwest to the South--a movement fairly characterized as anti-Rust Belt, anti-city, anti-corporate taxes and anti-union. Although Fantus and its spawn shun publicity, they play a venerated role in the world of companies looking for places and places looking for companies--a world in which many of the operatives work both sides of the street in possible conflict of interest.

Hugh White, mayor of Columbia, Mississippi, was an early client of the man whose work would later inspire the founding of Fantus Factory Locating Service. As a result of their collaboration sufficient money was raised to induce a manufacturing plant to move to White's county. Billed as an aggressive recruiter, White was elected governor six years later, and soon came up with an ambitious breakthrough plan for state-sponsored job subsidies. The Industrial Revenue Bond (IRB), issued by the government, is a low-interest bond that subsidizes a private company. As it serves a public purpose, economic development, it

is tax exempt. Wrapped in New Deal rhetoric, the Mississippi Industrial Act, which enabled IRBs, was passed by a special legislative session in 1936.

Under this legislation Mississippi counties and cities could issue bonds to build factories. As the bonds were exempt from federal income tax, interest rates were relatively low. A company would lease the constructed facility, and pay no property tax on this publicly owned building. The lease would pay the bond, typically in 10 years, whereupon the deed for the building would pass to the company. Southern states already had cheap labor; now they had cheap capital.

It was better than a free lunch at taxpayer expense. Companies soon figured out how to actually make money from an IRB. A company could buy its own bonds, receive tax-free interest, deduct the lease payments as business expenses, and net a profit on these machinations.

Tennessee, Kentucky and Alabama knew a good thing when they saw it, and soon adopted the IRB scheme. It did not go down well with the governors of other states, investment bankers or labor leaders, and became a target of federal legislation. Nevertheless, many northern textile mills and other industries fled south, and the IRB long received the protection of southern Congressmen flush with seniority and committee chairmanships.

Another questionable aspect of the IRB scheme was the kind of company it tended to draw southward: low-wage, slow-growth industry--marginal businesses that needed to cut every corner just to stay alive. There was an attendant tendency among public officials to repel companies that paid higher wages, so as to keep wages low for the companies already there.

Working Both Sides of the Street

Why shouldn't a site location consultant work both for companies looking for places, and places looking for companies? Where's the conflict of interest?

Consider Fantus, which formed in 1953 a wholly owned subsidiary, Fantus Area Research, to advise cities, states and others on how to attract businesses. According to the *Wall Street Journal*, its first client was York, Pennsylvania, which had gone 10 years without attracting a new plant, but bagged five in the 18 months after Fantus completed its report on York.

Had York simply curried favor with another part of Fantus, the part that companies paid to find places? Given Fantus' secrecy, the question may never be answered objectively. But within two years, the clients of Fantus Area Research included four more cities, two states and railroads and a 20-county region.

Other suspicions arise about the kind of recommendation made in 1986 to the client state of Illinois: Cut your corporate taxes to a level competitive with neighboring states. In other words, lighten the corporate share of the tax burden.

In this kind of arrangement, who looks out for the public good?

Leonard Yaseen's War on Urban America--and New York City

Yaseen founded Fantus Factory Locating Service in New York City. For reasons unknown he disliked taxes, wage laws and unions, and thought manufacturers should leave the cities. During WW2, Korea and the cold war he urged the dispersal of core industries to make them less vulnerable to military attack. He missed few chances to push companies out of cities, especially New York, in search of lower wages and taxes and friendlier governments. The exodus surely aided the growth in urban poverty and racial and social tensions.

Yaseen was inconsistent. In 1974, still pushing companies to leave, he blamed the city for not acting drastically to stop the loss of industry: The city should move its manufacturing jobs to industrial parks in the outer boroughs; it should set up a superagency to parcel land, zone, and oversee the training of the workforce. In 1977 he swung a big consulting contract to help attract industries to the city, even as his firm worked for six companies that might be headed away from New York. A few months later he retired, whereupon other Fantus executives began to hawk the virtues of the city. A *Wall Street Journal* headline marked the new line: "AFTER HELPING FIRMS GO, FANTUS LURES THEM BACK."

"Business Climatology" and the Second War Among the States

In 1975, with the Sun Belt states booming and the Rust Belt stagnant, Fantus supplied an explanation helpful to corporate lobbyists: the first "business climate" study, commissioned by the Illinois Manufacturers' Association. First in business climate came Texas, then Alabama, Virginia, South Dakota and the Carolinas. The one northern state in the top ten was Indiana. New York came last.

The very vagueness of the "business climate" concept was its strength: It could mean anything the corporate interests wanted it to mean, from low corporate taxes and loose environmental enforcement to "business-friendly" people and generous property tax abatements. The 1975 study based its rankings on population characteristics, quality of life and business legislative climate (the weightiest of the three). Thus, Alabama, #47 on quality of life and #42 on population, nevertheless ranked #2 for business climate. Minnesota, #1 on quality of life and #5 on population characteristics, trailed far behind at #41 for business climate. It was taxes and unions that wagged this dog.

Fantus left the field after its one crack at the climatology game, but the Conference of State Manufacturers Associations hired others to step up to the plate. In 1979 an accounting firm, Grant Thornton, began to issue ratings. Notwithstanding the bias and the flawed methodology, the annual news that the South and the Plains had the best business climates got plenty of media attention. It became too much even for a Fantus vice president, who complained that the ratings were based on executives' opinions, not facts. "Is there any empirical evidence that a high level of welfare expenditures is inversely proportional to the business climate?" (LeRoy, 2005, p. 81.)

After a major study thoroughly discredited its rating system in 1986, Grant Thornton revised its method, issued a few more reports, then quit. There was a long list of flaws, but the following summary captures the essence of the critique: The "Grant Thornton index knows the price of everything, but the value of nothing. It emphasizes the costs of labor but not its productivity. It calculates the expense of government but not its benefits." (LeRoy, 2005, p. 83.) Grant Thornton opposed tax, public goods, social safety nets and

unions. The message was loud and clear: We corporations will judge you in terms of the amount of your tax base you will surrender, and your help in suppressing wages; if you want to play this game, you will have to become more Southern.

Successors continue to issue ratings of states and metro areas, some in the vein of Grant Thornton, others concerned with indicators of the human capital useful to high technology and other sectors of the new economy. Still, Grant Thornton may have accomplished its mission: In its day it framed the debate on state job creation in ways that haunt us yet. Those were the days when states enacted tons of subsidies in the race to win the next trophy auto plant; when the states with Industrial Revenue Bond programs grew from 20 to 44; when the states where cities could make loans for equipment grew from 7 to 32, states with property tax abatements grew from 23 to 35 and states with corporate property tax exemptions grew from 21 to 31.

The Fantus residue is hard to ignore. Conflict of interest remains a strong and disturbing presence, as in 2003, when Washington, competing against other states, used a \$3.2 billion subsidy package to land Boeing's 7E7 "Dreamliner" project. To help with its campaign the state hired Deloitte Consulting, which had done much consulting for Boeing. The governor claimed, but the state attorney general denied, that the latter's office had cleared the state's contract with Deloitte. Subsidy consultants view state governments as cash cows, and say as much to potential clients, such as Wal-Mart, Procter & Gamble, Bank of America and Microsoft. They also warn them that the public doesn't like "corporate welfare," advocate the control of publicity, and advise them to be mindful of the election and legislative cycle.

The author closes the chapter with a comment on the relations between site location consultants and economic development officials. "[Site location consultants] are the speaker-bait that brings in hundreds of public officials who hang on their every word, seeking to gain some new insight, learn some new website trick, to get the attention of the consultants and their clients. . . . At the end of each session, the public officials line up before them to present a business card and offer a few hasty words to tout the little-known advantages of Springfield. . . . This deferential ritual is a sad reminder of the prevailing ideology that plagues us today, a hangover from the meanest elements of . . . Fantus and Grant Thornton. . . . The lobbying agenda of footloose manufacturers looking for cheap labor in the South before skipping to Mexico or China had no value for the rest of the economy then, and it is antithetical to good jobs in the New Economy today." (LeRoy, 2005, pp. 90-91.)

Chapter Four "Single Sales Factor" and the Corporate Assault on the Income Tax

"Single Sales Factor" (SSF) is a tax scam, sold to the public in the name of job creation, whereby a corporation might cut its state tax burden by 80 or 90%. It has already been enacted by ten states: Iowa, Missouri, Connecticut, Illinois, Maryland, Massachusetts, Nebraska, Texas, Wisconsin and Oregon.

How does it work? Long ago, states agreed on three factors to divide up the taxable income of a multistate corporation: The percentage of its payroll and property the company has in a state, and the percentage of its sales that occur there. For example, suppose 50% of your company's payroll and 40% of its property are in its home state, but only 2% of its sales are there. Assume an annual profit of \$10 million. Ordinarily, your

state corporate income tax would be based on \$10,000,000 multiplied by $(0.5 + 0.4 + 0.02)/3$, or \$3,066,667. Thus, your home state would tax about \$3.07 million of your corporate income.

But what if your home state has enacted SSF for manufacturers? In that case, you use only the sales factor to determine your taxable income there. Your SSF calculation would be \$10,000,000 multiplied by 0.02, or \$200,000--a reduction of 93%. Isn't that a nice corporate windfall? Won't companies flood into your state?

Not so fast. The *Wall Street Journal* calls it a race to the bottom, where states answer tit-for-tat until nearly all states charge so little tax that there is no further advantage in lowering corporate taxes. At that point the clear winners emerge: The companies with all those millions in tax breaks.

Another reality the SSF formula ignores is that a company with payroll and property in a state owes that state for a long list of expensive goods and services: schools, roads, sanitation, public safety, infrastructure and maintenance of infrastructure. And the SSF formula is manifestly unfair to businesses whose sales are all in-state, and manifestly favorable to those that export sales to other states. Note too that the formula is no universal windfall: It will actually raise your tax in a state where your company sells 1/3 of its product and has 1/5 of its payroll and 1/5 of its property. According to state estimates, if SSF were adopted most companies would actually pay higher taxes. But total revenue would fall, because the winners' tax cuts would exceed the losers' increases.

But doesn't SSF save jobs? Probably not. Of the eight states that had SSF fully in place by fall 2001, five fared worse than average between November 2001 and November 2004. In today's world the fate of manufacturing jobs is dominated by global issues, not domestic taxes. A spokesperson for Black and Decker admitted as much when the company announced that it would lay off 450 workers and move production to Mexico the year after Maryland, its home state, enacted SSF.

Of course SSF has its corporate merits. It lends itself to gaming by corporations that like to have it both ways. For one example among many, Kraft Foods lobbied for SSF in its headquarters state, Illinois, but opposed its adoption in Maryland. Another corporate merit is that SSF entails no unpleasant obligations, such as job creation, decent wages or "clawback"--a refund from a company that fails to deliver on promised job creation. Opacity is good too: Given the confidentiality of state corporate income tax returns, the public will never know the size of Megacorp's tax windfall.

What's in it for the state? The only sure thing is that the state will have less money for the public goods that benefit all. Ask Massachusetts, where SSF tax cuts for Raytheon (defense) and Fidelity Investments (mutual funds) have cost the state \$1.5 billion in corporate tax revenue and Fidelity, after talking about "job retention," began to outsource jobs to India. Ask Illinois, where University of Chicago economists, hired by manufacturers in their campaign for SSF, predicted a gain of 155,000 factory jobs in three years. Plain Jane officials at the Illinois Department of Revenue called the forecast absurd, but the media paid little attention to them. Sure enough, the state actually lost 188,000 factory jobs in the five and a half years after it adopted SSF. This meant less revenue from personal income tax, and not the rosy \$200 million gain predicted by the rented university economists. As for revenues from corporate income tax, SSF has cost Illinois about \$462 million, and now costs the state about \$90 million/year. In 1998, before SSF, about 7.3% of the state's

revenues came from corporate income taxes; in 2004 and 2005, after SSF, the numbers had fallen to 3.4% and 3.0%. The corporate response to the litany of disaster? Oh, these numbers do not take into account hidden increases in economic investment. Trust us.

But Georgia takes the cake in the corporate kowtowers contest. In 1998 the legislature passed, and Governor Zell Miller approved, a plan under which a multistate corporation might propose its very own formula, whatever it liked, for dividing up its taxable income. The plan caused a furor when the press reported that six companies had received this special deal, with \$98 million worth of tax breaks, and the state refused to divulge their names. Lawmakers changed the law to provide some disclosure. As a result, taxpayers recovered \$17.2 million from one of the six because it had not made good on its job creation promise.

The Long Corporate Assault on State Corporate Income Taxes

Whence come these ridiculous gimmicks? They come from a decades-long campaign to gut the corporate income taxes levied by the states. Since the 1950s the states have been trying to ensure that all of the profits of multistate corporations get taxed somewhere, and the corporations have been trying to defeat that effort.

In 1957 state tax commissioners proposed a model state tax law. The law, called the Uniform Division of Income for Tax Purposes Act (UDITPA), included the three-factor formula discussed above. At one blow, UDITPA would eliminate the confusing and unfair differences among states, and make sure that all corporate income would be taxed.

Unfortunately, UDITPA failed to touch an issue called “nexus”: How much corporate presence does it take to oblige the corporation to pay tax on the profits made in that state? A U.S. Supreme Court decision said that a state could tax those profits even if the corporation did nothing but solicit business in the state (*Northwestern States Portland Cement Co. v. Minnesota*, 358 U.S. 450, 1959). Soon afterward, corporate lobbyists got Congress to pass Public Law 86-272, which loosened up the Supreme Court ruling: A corporation would pay the state no income taxes if its goods were not produced or warehoused in that state.

To head off further federal legislation, in 1966 some states formed a Multistate Tax Commission (MTC) that would encourage states to address tax uniformity. The MTC also began to audit multistate corporate income tax, to the great annoyance of companies--which state officials had long suspected, correctly, of giving different numbers to different states as a means of sheltering profits from taxes.

The counterpunch came in 1972, when seventeen of our biggest corporations sued to shut down MTC and its multistate audits. The suit charged that the states' formation of MTC violated the Compact Clause of the U.S. Constitution. Corporate lawyers harassed MTC with a parade of interrogatories for three years, at the end of which new MTC counsel brought the case to a head with a motion for summary judgment. The U.S. District Court in New York ruled in favor of MTC, and so did the U.S. Supreme Court: States could form compacts that did not encroach on federal powers (*U.S. Steel Corp. v. Multistate Tax Commission*, 434 U.S. 452, 1978). The rebuffed business lobby redirected its efforts through the Council on State Taxation (COST).

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MTC discovered another tax dodge where companies gamed the system by creating subsidiaries so as to avoid nexus. A business might have a dozen subsidiaries in a state, but only three with nexus. The state audit would cover only those three. In another state, the auditor would cover only the three or four subsidiaries with nexus there. Neither auditor would see the whole picture, of all twelve subsidiaries creating income in both states. MTC saw a solution to the problem: Treat all entities as if they were one company. MTC called the solution “combined reporting,” and urged member states to adopt it.

MTC urged the extension of combined reporting to foreign subsidiaries. This was one of the first attempts to cope with the practice of exporting jobs and income abroad so as to avoid the payment of state and federal income tax. How did the business lobby respond? COST tried to ban worldwide combined reporting by means of a U.S.-U.K. tax treaty. But the states weighed in, and the Senate blocked ratification of the treaty. At last the U.S. Supreme Court confirmed the states’ right to require combined reporting, both domestic and worldwide (*Container Corp. v. Franchise Tax Bd.*, 463 U.S. 159, 1983). Nevertheless, with about 579 corporate members, COST continues the fight to limit states’ taxing rights with studies, amicus briefs, orchestration of legislative action and propaganda.

Two More Corporate Income Tax Loopholes

Nowhere Income

Suppose an Iowa producer sells her corn dogs to a Wrigley Field vendor in Chicago. As she has no Illinois factory or warehouse, and sells her wares by means of a traveling salesman who works out of his house, Public Law 86-272 says she has no nexus in Illinois. It follows that Illinois has no right to tax her profits on the sale. Neither does Iowa, as the sale did not occur in Iowa. Such profits are “nowhere income,” taxed nowhere. If Iowa had a “throwback rule,” the profits would be thrown back to Iowa as taxable income. But 20 states still lack the throwback rule, among them Arizona, Maryland, North Carolina and Massachusetts, where corporations fought its adoption. The other 16 are Connecticut, Delaware, Florida, Georgia, Iowa, Kentucky, Louisiana, Minnesota, Nebraska, New York, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee and Virginia.

Delaware Holding Company Loophole

Suppose a lady owns a chain of clothing stores throughout 20 states that have not adopted combined reporting. She can avoid paying state income taxes on those stores’ profits by means of a trademarked logo or slogan. In Delaware or Nevada she sets up a Passive Investment Company (PIC) that owns the trademark, and has the PIC charge all of her stores royalties for the use of the trademark. If the royalty bill equals the stores’ profits, the stores will show no net profit and owe no state income taxes. Don’t worry about the royalty checks: Delaware does not tax “passive income,” and Nevada has no corporate income tax. It gets even better if the lady chooses to lend her tax-free profits to her own company, and then deducts the interest. What a wonderful place to do business!

As neither of these two states requires public disclosure of the existence of holding companies, nobody knows exactly how many there are, but they number in the thousands. The *Wall Street Journal* came up with a list of 50 companies with PICs, disclosed to the public in the course of litigation. Among them were Budget Rent-A-Car, Burger King, ConAgra Foods, Gap, Inc., Home Depot, Radio Shack, Sherwin-Williams, Snap-on, Staples, Syms, Tyson Foods and Urban Outfitters.

How much do these scams cost the public? The Multistate Tax Commission says that in 2001 nowhere income, Delaware holding companies, offshore incorporation, offshoring of profits, and other corporate tax sheltering schemes cost the states \$12.3 billion.

Combined reporting could have saved much of that money, but only 16 states require combined reporting. Only 9 more prohibit deduction of royalties paid to a related company. And state tax laws are actually less uniform now than they were in the 1980s. Why? According to an MTC spokesperson, business interests undermine uniformity at every chance they get, because they know that nonuniformity is good for tax shelters.

Chapter Five Property Tax Abatements and Your Local School

American families treasure their schools. They often accept higher housing costs to live near better schools. In terms of their willingness to support bond issues, their support for public schools is second only to healthcare. Companies too prefer locations with good schools. However, they do not like to pay for schools, and act as if entitled not to pay.

Their aversion to property tax is understandable. For many corporations, that is their biggest tax liability. Consequently, the reduction of property tax looms big on the bottom line, especially for companies invested heavily in land, buildings or equipment. Unfortunately, property taxes are a major source of school funding. On average, 49% of the funding comes from state government, 8% from federal government and 43% from local sources, of which two-thirds are property taxes. Thus, when school districts lose tax revenues to abatements or TIF, less money goes to their schools.

Giveaways That Keep on Giving: Abatements and TIF

Property tax abatements--discounts or total exemptions--typically run upwards of 5 years; in Nashville, Dell probably holds the record at 40 years. Forty-three states, plus Washington, DC, permit abatements. Some restrict them to manufacturing, others to enterprise zones; some follow strict rules, others permit local variations in abatement size or duration.

Tax increment financing (TIF) subsidies usually depend on property taxes. When the redevelopment of a TIF district raises the property assessments, the resulting rise in tax revenues goes not to schools and other local services, but to redevelopment in the TIF district--supposedly because the district is blighted or distressed. This diversion of funds can last for 15 to 30 years, depending on state rules. Forty-seven states, plus Washington, DC, permit TIF. In some states abatements or TIF districts can be extended past the initial term.

These generosity often go unrewarded. Recipients often fail to deliver on their promises, and cities may fail to monitor results or seek repayment. In 2003 an Indiana newspaper, the *Fort Wayne Journal Gazette*, found that over half of nearly 200 abated companies had not kept their job promises. Not to be outdone, the county government had never rescinded, or denied a request for, an abatement. Finally, the paper estimated that the bill for other taxpayers was \$3.5 million higher than it would have been in the absence of the abatements.

In Springfield, Oregon, Sony closed a CD factory that had been blessed with a five-year tax break for enterprise zone property. Afterwards, the *Eugene Register-Guard* investigated 76 abated companies, large and small. Six big firms had 95% of the tax break money, and 70 smaller ones had 5%. Three of the big ones had failed to deliver on their job promises, but managed to keep some or all of their subsidies by means of renegotiations. The smaller companies did better. They somehow created almost as many new jobs as the big six, although 11 of their number had closed. The subsidy cost of job creation, only \$2,100 per job for the small ones, soared to \$32,000 for the big ones.

Harris County, Texas, wised up after three abatement disputes, one of which involved the closure of an MCI call center. Afterwards, two companies came in despite the county's rejection of their bids for tax breaks: Albertson's (grocery warehouse) and Sonangol (oil company headquarters). The *Houston Business Journal* opined that cities had begun to learn some lessons from the pitting of one city against another in bidding wars of companies that had already made their relocation decisions.

Louisiana: Big Breaks for the Big Boys in Cancer Alley

"Cancer Alley," the stretch of the Mississippi between Baton Rouge and Louisiana, is lined with oil refineries, chemical plants and paper mills that emit great gobs of toxic materials. When their managements rebuild, enlarge or upgrade these plants, the state Board of Commerce and Industry, a gubernatorial creature, routinely rewards them with 10-year property tax exemptions. In most of the country county boards control these exemptions; not in Louisiana.

The Louisiana Coalition for Tax Justice published the cost of these exemptions after a study of tax records for the 1980s. The exemptions had cost local governments \$2.5 billion and inflicted their greatest harm on schools, to the tune of \$941 million. Small wonder that Louisiana ranked last in high school graduation rates. The big winners were Louisiana Power & Light, Gulf States Utilities, Cajun Electric Power, Shell Oil, Exxon, Texaco, International Paper, Dow Chemical and Mobil Oil. Another \$188 million went to four years' worth of enterprise zone rebates and credits.

What did the state get in return? Of Exxon's 282 exemptions, 251 produced no new permanent jobs. The Exxon exemptions cost the schools \$42 million. The oil, chemical and paper plants lost almost 8,000 jobs.

There was a flash of reform in 1991, when the state's environmental agency adopted a scorecard system that used tax exemptions as rewards for compliance with environmental rules, reduction of toxic emissions, and recycling. Toxic emissions fell by 8%, pollution reduction created 3,500 jobs, and local government revenues increased. In 1992, as his first official act the new governor, Edwin Edwards, scrapped the scorecard system.

Ohio: The Poor Pay More

As about half of Ohio's school funding comes from property taxes its schools are especially vulnerable to TIF and property tax abatements, which cost them \$102 million in 1999. Three years later, the annual loss was \$115 million. Back in the 1980s, when only 2% of corporate real estate was abated, religious institutions had three times more real estate abated than corporations. By 2002, when 10% of corporate real estate was abated, the value was \$3.9 billion--more than religious institutions, charities, private universities or

any level of government.

Urban areas with large numbers of poor took the biggest revenue losses. The *Wall Street Journal* noted the irony: Even as they blamed poor schools for the scarcity of well-trained workers, the same Toledo businesses were taking big property tax breaks. Cleveland shared in the irony, closing schools and shedding programs and teachers even as it subsidized eight projects that cost the schools \$9.2 million a year. An initiative to protect schools from abatements failed at the ballot box, but Cleveland has since become more careful about handing out abatements.

Illinois: TIF on Steroids

TIF is the big problem in Illinois, where 870 TIF districts suck revenue from schools and other public services. They typically last 23 years, but can be extended for another 12.

In Chicago the Neighborhood Capital Budget Group found evidence that many TIF districts were anything but blighted, as their assessed value was rising before their TIF designation. What this means is that these TIF diversions have captured tax-base growth that would have occurred anyhow, in which case the additional revenues would have gone to schools and other public services and not to corporate welfare. It is estimated that this 23-year diversion of revenue captured by TIF, but not created by TIF, will cost public services \$1.3 billion. Chicago public schools will lose \$632 million, community colleges \$53 million.

An Oak Park school board member concerned about TIF renewal complained that her adult children, very young when the TIF was formed, were still waiting for the promised educational benefits.

Maine: Turning Property Taxes into Profits

Maine offers two different subsidies to reimburse property taxes, and some companies can actually claim both. The first one is TIF. If your company owes taxes on new machinery and equipment, you can get that tax increment paid from local property taxes, courtesy of TIF. The second one is the Business Equipment Tax Reimbursement program (BETR). Thanks to BETR, the state gives you a 100% refund on your business equipment taxes, even if they have already received a TIF refund. It's double dipping in Maine!

According to the Maine Citizen Leadership Fund, some 50 companies qualify for the TIF/BETR, and double dippers cost BETR over \$15 million/year. That includes a \$3.4 million scoop for National Semiconductor and a \$2.1 million scoop for International Paper in 2001. As Maine cuts both schools and low-cost drugs for the elderly, and the projected corporate dip balloons to \$256 million by 2012, the scandal festers on.

Free Growth? Just Ask South Carolina

The South Carolina Department of Commerce crows about the state's hostility to labor unions and its low wage rates. At the same time, the state lures corporations with subsidies so generous as to practically guarantee any new company's nonsupport of public services. And any new company will bring with it the need for more classrooms, more teachers, wider roads, more police and firemen and more trash hauling, none of which

the company will want to pay for.

The state will solve that problem by raising everybody else's taxes and fees, cutting the quality of public services, or both. Poor overcrowded roads bring more highway fatalities, cuts in public health raise infant mortality, and underfunded schools bring low achievement scores.

In the words of three tax scholars: "Property tax incentives no doubt were put in place with the best of intentions. But so was kudzu." (LeRoy, 2005, p. 124.)

The Root Problem: School Boards Usually Have No Say

If we put our school boards in charge of education, but let other government bodies undermine their budgets with TIF and tax abatements, our schools are bound to suffer. That is precisely what we have done: According to a study issued in 2003, in the great majority of states school boards have no say about abatements or TIF, and are not even consulted about them. Only four states have rules that protect schools from the loss of revenue to abatements and TIF: Alaska, Florida, Maryland and South Dakota.

Would business suffer if schools could guard their revenue? Most probably not. The evidence comes from an inadvertent experiment performed by Texas between 1993 and 2001, when the state stopped its reimbursement of school districts for revenue lost to abatements. School boards could choose whether to participate in new abatements. Within two years the percentage of schools participating in new abatements dropped from 55 to 8. Nevertheless, the sky remained in place: During the nine years of the experiment the state gained about 2 million jobs in the private sector, a growth of one-third.

Schools: A Key to Creating Good Jobs

In a company's relocation decision the most important variable is the supply of skilled labor, which depends in part on local schools. In terms of quality of life, schools are the most important relocation variable, for two reasons: Their role in persuading employees to move to the new location, and their role in attracting future recruits.

It follows that the cutting of corporate taxes in the name of job creation may actually harm the business climate. Remember: When big business pays less, government must raise taxes on those who don't get the break, cut services, or both.

Chapter Six Subsidizing Sprawl, Subsidizing Wal-Mart

What Is Suburban Sprawl?

Suburban sprawl has several signs and effects. Low density and no mixed uses mean homes with no jobs or stores nearby. With few transportation options, everyone must drive to work or shop. Jobs spring up in new suburbs as they disappear in the city core and the older suburbs. A growing dependency on cars makes commuting times longer, the air more polluted and childhood asthma more common, along with numerous maladies of insufficient exercise. Older areas lose their tax base; their services decline and their infrastructure crumbles, creating an upward pressure on the property tax rate. New bedroom communities struggle to pay for new roads, schools and teachers. Wide open

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spaces become urbanized land. The whole tax bill rises: As the population spreads out there are more miles per capita of roads, sewers and water mains to build and maintain, and the cost of other services rises: police, fire, sanitation.

What Causes Sprawl?

Urban experts blame urban sprawl on a laundry list of causes, including a preference for low-density housing, white flight, poor regional planning, flight from crime, cheap gasoline, and federal bias toward spending on highways rather than public transit. The list goes on.

Another probable cause, identified only recently, is economic development subsidies. These contribute to sprawl when states allow subsidies to go anywhere, and pay companies for outward moves they would have made anyway. States contribute to sprawl when they fail to coordinate job programs with land use planning, especially planning of public transit. Thanks to perverse changes in rules, subsidies once intended for urban revitalization, such as TIF and EZs, can now finance the development of other areas, relatively new and affluent, that already have the older areas beaten.

Take Ohio. EZ subsidies are supposed to attract new investment and jobs to poor areas with the lure of various tax breaks--property, income, inventory, sales, utility, etc. But many of Ohio's 339 zones are in areas with no sign of economic depression. And most of the affected jobs were jobs that moved from one part of Ohio to another, not jobs that came in from other states (the ratio was 20/1). A comparison of very-high-income with very-low-income school districts showed that the wealthy districts received twice as many EZ jobs and five times as many investment dollars as the poor districts. The author of the study noted: "It's the wealthy areas that tend to land the most lucrative deals. . . [Legislators] should not pretend that they're helping struggling communities . . . Ohio's poorest communities have been zoned out." (LeRoy, 2005, p. 134.)

TIF too may subsidize sprawl. Recall that when a city designates a TIF district new construction ensues, property values rise, and property taxes rise with them. The tax revenue splits into two streams: the base value (pre-redevelopment), which continues to support schools and other local services, and the tax increment, which returns to the TIF district to finance the redevelopment.

In Anoka, Minnesota, TIF provided free land to 29 small manufacturers that employed about 1,600. About half of the 29 relocated from Minneapolis, about 20 miles away, or Minneapolis suburbs of the older, ailing variety. The rest came from other suburbs. The companies got to keep their skilled workers and their proximity to suppliers and customers, but the region suffered. Jobs moved from neighborhoods populated by the poor and persons of color. Job opportunities moved away from families that could not afford a car: 70% of the jobs had been within range of public transportation, but in Anoka the jobs were inaccessible. The new employees probably came from rural areas.

Anoka is not unique in its subsidization of sprawl. In Chicago loans made by the Small Business Administration (SBA) were more likely to go to outlying high-income areas than to closer-in, low-income areas.

In Washington, DC, a map of SBA loan guarantees resembled a donut, with most of the aid going to outlying areas. A lawsuit persuaded SBA to start to consider such impacts.

In a study of low-interest, tax-free loans, the New York state comptroller found abundant evidence that tax abatement does not lead economic development, but follows it. When the *Kansas City Star* found that several companies had been subsidized to desert core areas of high unemployment and fly to the prosperous suburbs, it sang the New York tune: “Created to combat sprawl, tax breaks now subsidize it.” (LeRoy, 2005, p. 136.)

Chicago suburb Lake Forest, with a median family income of \$165,512 in the year 2000, has both a TIF district and a Ferrari dealership.

In Milwaukee a suburban mutual fund company justified a \$3 million tax credit in terms of its proximity to a county with above-average unemployment. A state senator demurred: “It’s essentially a government subsidy to promote sprawl.” (LeRoy, 2005, p. 136.)

Let Warren Buffett serve the dessert. At \$42.9 billion, Buffett is almost the wealthiest man in the world and a major holder of GEICO, the auto insurance company. New York gave GEICO \$100 million in tax breaks to put a regional service center in Amherst. Amherst is a well-off suburb just nine miles from poor old Buffalo.

Worshiping Competition, Subsidizing Sprawl

Since the early 1980s states have loosened rules for TIF and EZs and enacted hundreds of subsidies so as to “stay competitive” with one another. For example, in 1981 Ohio enacted its EZ program to combat blight in depressed areas. A few years later rule changes gave the program an entirely different purpose, to reduce business property taxes and protect against competition from other states.

Other states followed suit, with rule changes that made the programs less targeted and less likely to benefit poor areas. Examples: Reduce the eligibility requirements, or even allow every county to have a zone. Let the zones become so large that they include areas of little or no need. Let cities gerrymander boundaries to favor special interests. Make the criteria more subjective; let officials designate EZs on a case-by-case basis.

Some states give EZ tax breaks to companies outside the zones: New York, Texas, Connecticut, Louisiana, Utah, Wisconsin and Indiana. Some have declared the entire state to be an EZ: Arkansas, Kansas and South Carolina. Some have so loosened the rules that any area capable of substantial improvement is eligible for TIF: Alaska, Indiana, Iowa, North Dakota, Oregon, Virginia and South Carolina. These changes loosed an avalanche of TIF giveaways, wasteful development and long-term burdens on our economy, health and environment.

Sprawl Worsens Economic and Racial Inequality

Because new suburban developments are often poorly served by public transit, employment there may require a car--bad news for the poor and for workers of color. In terms of cost, transportation is second only to housing, and rising fast. Among the 10% of families that cannot afford a car, African-American households are over three times as

numerous as white households, and Latino households over twice as numerous.

This dire situation cries out for some coordination of job creation with transit. However, a comprehensive survey entitled *Missing the Bus* was unable to find even one example of a subsidy program that gave preference to projects accessible to transit. Given that the states have over 1,500 job subsidy programs, the omission is astounding.

The Hidden Taxpayer Costs of Subsidizing Big-Box Sprawl

In 1960 we had four square feet of store space per capita, in 1977 eight, and now 38. Other industrialized nations have between 1.5 and eight square feet per capita. Why do we subsidize retail space, a supremely poor investment in economic development?

Relative to manufacturing, the ripple effects of retail, both upstream and down, are nearly invisible. Upstream, a big-box store creates few supplier jobs for the local economy because companies like Wal-Mart, Target and Home Depot have come to depend so heavily on foreign labor. Downstream, the big-box store creates few jobs from the buying power of the people who work there because their jobs are largely part-time, pay poverty wages and provide no healthcare. Barely able to stay alive, such employees have little wherewithal to stimulate the local economy. In the words of the author: "Retail is not economic development; it's what happens when people have disposable income." (LeRoy, 2005, p. 141.) The exceptions may include unionized grocery stores that pay decent wages, and depressed neighborhoods in need of revitalization through subsidies for basic retail: grocery, drug and clothing stores.

In addition to subsidization costs, we must pay attention to the hidden costs of overbuilt retail. The Main Street Center of the National Trust for Historic Preservation has helped downtown retailers in over 1,000 cities fight the big-box centers. A spokesperson has testified that when one Main Street store, with two floors and 2,000 square feet, goes vacant, the local economy shudders. It loses almost \$250,000/year in property taxes, wages, bank deposits and loans, rent, sales and profits.

It isn't just Main Street; the big-box centers are lethal to malls too. In 2001 7% of regional malls were dead ("grayfields"). Another 12% were expected to pass in the next five years, for a total of 389 dead malls. The death of a mall typically brings lower property assessment and lower tax revenues. For example, a mall in Wisconsin went from \$107 million in 1990 (assessed value) to \$3.5 million in 2001 (grayfield sale value).

The hidden costs merit special notice. U.S. Congressional staffers estimate that each Wal-Mart store with 200 employees entails safety-net costs--Medicaid, Section 8 housing and the like--of \$420,750 a year, billed to the federal taxpayers. That would be nearly \$1.5 billion a year for the 3,500 Wal-Marts already here, with another 300 per year on the way. Already a major cause of runaway Medicaid costs, this expense will surely grow as more people lose their health insurance.

Some states, alarmed at the magnitude of this problem, have begun to release pertinent data and names. Wal-Mart stands out, but is not alone. Other big-name recipients of this form of corporate welfare are McDonald's, the grocery chains Publix and Stop and Shop, and Dunkin' Donuts.

How Suburbs Compete for Taxes--and Fuel Sprawl

The author deplors the tax rules in most states that encourage local governments to compete for their tax base. In the context of land use, this “fiscalization” policy encourages local uses that maximize revenue from property and sales taxes. It also tends to minimize public service expenses, the greatest of which is K-12 education.

It is this kind of policy that leads to big subsidies for big business facilities, business parks--which have no homes full of K-12 children--and exclusionary zoning, such as one family home per acre--another limit on K-12 children. An especially insidious practice is the local sales tax that returns only to the city where the sale occurs. Such a tax provides another perverse incentive to zone for retail uses and subsidize retail construction.

One way out of this bind is to adopt the regional view that companies themselves adopt in their search for a location: First find the best region, then look for the best place therein. Aware of this particular search procedure, some public officials have turned toward a cooperative effort to improve the business fundamentals in their region. At the same time, they turn away from the subsidies that they know to weigh so little in the relocation decision.

Missouri: “TIFing” for Nordstrom

For four years Missourians have been treated to a raging debate about TIF reform. An editorial in the *St. Louis Post-Dispatch* put the issue succinctly: “With towns handing out TIF like bubble gum, St. Louis may be getting over-stored, while developments are under-taxed.” (LeRoy, 2005, p. 147.)

A signal example of the need for reform is that many developers want TIF to offset high land prices of stores to be built in wealthy areas. The city fathers of one upscale suburb dutifully declared a shopping center “blighted,” despite its annual gross of over \$100 million/year and its near-100% occupancy. The intent was to redevelop the center to include Nordstrom and Lord & Taylor. Angry citizens joined a rival mall in protest, but lost in court.

California: Proposition 13 Fuels Sprawl as Cities Chase Pennies

Prop 13, a conditional freeze on property tax assessments at 1975 levels, naturally depressed property tax revenue and made local governments more dependent on sales taxes. One unfortunate result: A perverse incentive to subsidize too much retail and steal retail sales from other localities. A related misfortune: Too many retail stores and not enough housing.

Prop 13 is the mother of pernicious loopholes. The freeze applies unless the property changes hands, but corporations dodge reassessments by means of publicly traded companies, limited partnerships, and real estate investment trusts. Because the same corporate entity holds title throughout a series of different owners, there is no change of ownership and no reassessment. That is why the Hilton Tower Hotel in downtown San Francisco was taxed at 80 cents per square foot of land in 2002 and 2003, while the Clift Hotel paid \$16.55.

Wal-Mart: More Than \$1 Billion in Subsidies

The National Trust for Historic Preservation is not too keen on Wal-Mart. It declared Vermont endangered by Wal-Mart's intention to develop seven more stores there: "The likely result: degradation of the Green Mountain State's unique sense of place, economic disinvestment in historic downtowns, loss of locally-owned businesses, and erosion of the sense of community that seems an inevitable by-product of big-box sprawl." (LeRoy, 2005, p. 151.) Given such ill repute, one may question why so much of the public treasury has gone to fuel Wal-Mart's growth in the name of job subsidies.

Evidence compiled in 2004 indicated that Wal-Mart had received over \$1 billion in taxpayer subsidies--free or cheap land, infrastructure assistance, TIF, property tax abatements, income tax credits, EZ tax breaks, job training, low-interest tax-free loans and cold cash. Wal-Mart has repaid us with ghostboxes abandoned for new supercenters, growth at the expense of existing retailers and domestic suppliers, suburban sprawl, poverty wages, and violations of labor and immigration law.

It has also become clear that what Wal-Mart really craves is market share, not subsidies. The company often goes ahead with projects despite refusal of sought-after subsidies. Public opposition has played a role in several successful site fights.

Wal-Mart has responded to the 2004 study by claiming that ". . . every dollar invested returned more than 30." (LeRoy, 2005, p. 154.) However, close examination of this claim reveals some extravagance. The "return" includes the collection of sales taxes, as required by retail law, but that money comes from the consumer, not the company. It also includes income taxes deducted from workers' paychecks, but that money comes from the workers, not the company. Don't forget the hidden cost of that poverty-wage safety net, \$420,750/year for earned income tax credits, housing, school lunches etc.

Thus, the taxpayer costs of Wal-Mart job creation are borne mainly by workers, consumers and taxpayers, not Wal-Mart.

Chapter Seven Loot, Loot, Loot for the Home Team

In the construction of stadiums for professional sports, public funding has become the norm. Of the 92 big-league teams in football, baseball and basketball, 83 play in venues built partly with public money. The public footed most of the bill in 63 cases, the whole bill in 32. The total public share came to about \$10 billion. The conventional rationale is that the home team contributes so much to the vitality of the city, and generates so many jobs, that team owners merit not only the subsidies that other businesses expect, but public financing of new stadiums as well, to the tune of several hundred million apiece.

The Brooklyn Threat

Until 1953, team owners paid for their own stadiums. That was the year the Braves left Boston for Milwaukee and a new baseball stadium built with public funds. But the blockbuster struck in 1957 when Walter O'Malley, rebuffed by New York officials, moved his Brooklyn Dodgers from cramped old Ebbets Field to Los Angeles, which welcomed the team with open arms, free land and infrastructure improvements. It was the move from Brooklyn that left the indelible image of a community crippled forever by the loss of a

sports franchise, an image complete with bullying team owners and worried politicians.

By now the scenario is familiar. In 1984 Robert Irsay, the Colts' owner, summarily moved his football team from Baltimore to Indianapolis, where a new domed stadium, built on spec with public money, stood ready and waiting with a low-rent contract. The fickle Irsay had already squeezed Baltimore for \$25 million in stadium improvements.

In 1992 the shaken Maryland officials, ready to keep their sports franchises at any price, gave the Baltimore Orioles their very own \$235 million baseball stadium. There would be no more stadium-sharing with football. The officials also transformed the Cleveland Browns football team into the Baltimore Ravens with the magical promise of a new stadium next to the Orioles' digs. Back in Cleveland, a new Browns football team would play in a stadium built with the help of \$240 million in public funds, and voters approved a sin tax on alcohol and tobacco toward a new stadium for Indians baseball.

Faith-Based Stadium Economics

Are sports palaces the great job-generators they are supposed to be? They start with several strikes against them. Professional sports have limited seasons with many games played out of town. A stadium used only for professional football might not be used more than ten days a year. One could question the quality of the direct jobs, mostly part-time, intermittent, low-wage positions with few benefits. It would be hard to make a living by selling beer or hot dogs or cleaning up after the crowds. Stadium construction is good work, but soon done.

If one hopes to write a glowing prospectus one should turn to the indirect economic impact, with optimistic assumptions about business generated by restaurants, bars and the like. However, factual studies of indirect impact show that stadium subsidies produce very little in the way of economic growth or job creation. For example, the few jobs created often cost taxpayers over \$100,000 apiece. It also appears that professional sports teams do not much catalyze economic development: Instead of adding to the leisure industry, they mainly draw already existing spending to the stadium. In Baltimore the benefits were far outweighed by costs to the taxpayers, and in Cleveland each additional job cost over \$200,000 in taxpayer funds.

The economic research displays a rare unanimity: The construction of sports facilities has no significant positive impact on economic development. Not surprisingly, this conclusion contrasts dramatically with the rosy predictions of consultants hired by those who support the development of sports facilities. Rosy predictions flourish among unrealistic assumptions.

Who's Winning?

If taxpayers and workers do not, who does derive the big rewards from stadium subsidies? A few dozen of the 400 richest Americans, team owners worth hundreds of millions each, including one worth \$20 billion. The big-ticket franchises include the Washington Redskins (\$1.1 billion), the New York Yankees (\$832 million) and the Los Angeles Lakers (\$510 million).

Of course franchise values rise as the new stadiums go up at taxpayer expense. In 1989, before Camden Yards went up, the Orioles sold for \$70 million; in 1993, after the magnificent new stadium came on line, the Orioles sold for \$173 million, a 147% increase.

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In the words of baseball entrepreneur Bill Veeck: “You don’t make money operating a baseball club. You make money selling it.” (LeRoy, 2005, p. 165.) The money in question is REAL money.

A U.S. President is a case in point. In 1989 George W. Bush left a bad patch in the energy business and bought a small stake in the Texas Rangers baseball team for about \$600,000. He and his co-investors soon persuaded the voters of Arlington to pay 2/3 the cost of a new \$191 million stadium development through an increase in a sales tax. The development included facilities that paid rent to the Rangers, and the construction money came from a public authority loan.

Bush repeatedly dismissed the charge of corporate welfare until the end, in 1998, when the team sold for \$250 million, three times its 1989 value. The future President realized a personal profit of \$14.9 million on a kind of public subsidy that typically returns very little to the public economy.

Too Many Convention Centers

Convention centers, like professional sports venues, are often pushed as a way to bring affluent visitors downtown. However, it makes little sense for cities to invest in convention centers at a time when the national convention market is not expanding. National attendance at conventions and trade shows has generally declined since the 1990s, while exhibit space has expanded.

Because convention centers are mostly owned by the public, their government subsidies are typically not a direct giveaway to private interests. Nevertheless, they too represent a huge public price tag for a handful of jobs.

Chapter Eight Shifting the Burden

Over the past quarter century corporations have gradually shifted the cost of public services onto everyone else. In the 1980s an average of 6.93% of company profits went to state and local taxes; this number slid to 5.12% in the 1990s and 4.99% in 2002, an overall drop of 28 percent. A major cause is the tax race to the bottom as states compete for businesses, largely by means of the Single Sales Factor. Comparative changes in income tax collections in the 1990s show that corporations are gaming the state tax codes even harder than the federal codes. Another revealing index is the corporate share of state tax revenue, 9.7% in 1980 but only 6% in 2000 and 5.2% over the next three years.

For another perspective on this shift, note that if corporations had kept up their 1980 share of the tax burden, in 2003 the states would have had \$27.3 billion more toward smaller class sizes in schools, public safety, healthcare and infrastructure. Alternatively, they could have spared us the regressive tax hikes, such as sales taxes, enacted by many states.

The dodgers are distributed widely throughout the states, and are not confined to any one kind of business. Why has the dodge become so rampant? In the words of Richard Pomp, a Connecticut law professor: “The real explanation is that the corporate tax has become a voluntary tax. The legislature doesn’t control it. The tax department doesn’t control it. Accountants and lawyers control it.” (LeRoy, 2005, p. 171.)

Artful Dodgers: The Big Companies

The most aggressive state tax dodgers are the big companies. According to Professor Pomp, after the Reagan administration made its sweeping federal changes in the corporate income tax the corporations decided to send their accountants and lawyers after the biggest game left, the states. The results are apparent.

In the years 2001 through 2003 264 of the *Fortune* 500 companies, all profitable, paid 2.85% of their profits in state income tax in 2001, 2.61% in 2002 and 2.35% in 2003, nearly a 20 percent drop. Had they paid the statutory rate they would have averaged 6.82%. Their big saviors were economic development tax breaks and tax loopholes.

In Connecticut 38 of the 95 biggest corporations paid no income tax in 1999, and nearly 2/3 of all companies paid only the \$250 minimum. Similar patterns have been seen in Maryland and New Jersey. In 2000 over half of Oregon's corporations with payrolls over \$2 million paid just \$10, the corporate minimum set by state law in 1931. The corporate share of Oregon's income and estate taxes was 13% in 1980-1981, but only 5% in 2002-2003.

How Subsidies Zero Out Corporate Income Taxes

Many states give such generous tax credits that new companies pay little or no tax, or even receive a refund for a negative tax. Or a company may choose to carry unused credits into the future, so as to pay no taxes for years. Given profits from other operations in the same state, the company can use its credits to cancel taxes on those profits.

This odd behavior on the part of the states cannot be explained as pump priming inspired by high unemployment. There is no correlation between unemployment rate and the adoption of business tax cuts or development incentives. One analyst broke the data down by 16 industrial sectors, e.g., food processing, transportation equipment, etc. In Texas companies in 9/16 sectors were receiving negative income taxes, in Ohio 13/16, in Kentucky 15/16, and in Iowa, Michigan and South Carolina 16/16.

Two of the biggest giveaway states are Alabama and Kentucky. In Alabama a company gets to deduct 5% of its capital costs, every year for 20 years, from its state income tax. This has been a costly way to create jobs, over \$213,000 worth of tax credits per job--not counting the many other subsidies Mercedes and other companies received. But the people's money really flowed up north. In Kentucky the state gave Willamette Industries, a lumber giant, \$132.3 million in tax credits for 105 new jobs, or \$1.26 million per job.

The Poor and Middle Class Pay More

Corporate control of the tax system has meant that big corporations pay less. That forces states and cities to sustain public services with a rise in taxes, mainly on sales and property--regressive taxes that take their biggest toll on the poorest families. Corporate tax cuts, which favor wealthy stockholders, accelerate our overall move toward a more regressive system. So do lobbyist pressures on states to cut the top tax rates of the highest incomes.

As evidence, consider the share of income paid in state and local taxes in 1989 and 2002. Nationwide there was a clear rise in the share paid by the 80% on the bottom rungs

of the income ladder, while the top 20% paid less. In 2002 Florida's poorest families paid 14.4% of their income in state and local taxes, while the richest 1% paid only 2.7%. In Texas the corresponding numbers were 11.4% and 3.2%. In Washington, which has no income tax, the numbers were 17.6% and 3.1%.

Bush's Corporate Tax Cuts Create a "Jobless Recovery"

Corporations have also managed to cut their contributions to federal revenue. Their income tax payments made nearly 28% of the federal revenues in the 1950s, 15.5% in the 1970s, 10.8% in the 1990s and about 9% at present.

Do tax cuts to big corporations create jobs? Probably not. Some recent evidence comes from two rounds of corporate tax cuts with particularly inspired titles: the Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. These laws reduced the taxable part of corporate profits to such an extent that they were projected to cost the U.S. Treasury \$175 billion in three years. President Bush and other backers claimed that these laws would encourage companies to invest and create new jobs. What we actually experienced was a big jump in corporate profits, a big drop in corporate income tax payments, and the worst record of job creation since the Great Depression.

One study focused on 275 *Fortune* 500 companies, each uniformly profitable from 2001 through 2003. These companies actually invested 12% *less* in 2002 than in 2001, and 3% *less* in 2003 than in 2002. The bigger their tax break, the less their investment. In one specific example, SBC Communications took a \$5.8 billion tax break and reduced its investment by 53%.

Thanks to the largesse of our government, we now trail only Germany and Iceland in the international race to the corporate tax bottom.

Working Families' Taxes Up + Wages and Benefits Down

Rising Frustration with Government

Most of our citizens have experienced a four-way squeeze: higher regressive taxes, worse public services, lower wages, and fewer benefits. Between 1979 and 2003 workers not in management positions--80% of wage earners--saw a drop in wages, health insurance coverage and retirement benefits. At the same time they have seen corporations grow fat on tax giveaways that repeatedly fail to create the jobs they are supposed to.

Such experiences leave the impression that big businesses have too much power, some of which they use to dodge their fair burden of public services. Their steady disinvestment in the base of our economic future suggests an alarming indifference to our long-term prosperity.

Is Big Business Pulling Out?

There are several signs that it is. The author's personal study of plant shutdowns identifies them as planned sequences of systematic disinvestment that let equipment run down, give other plants hot new products, transfer the best managers and demand contract concessions from union labor.

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Why should they invest in our communities if they see little future here at home? Such prophecies run little risk, as they are essentially self-fulfilling. As the infrastructure crumbles, the schools fail to supply enough skilled labor, the population ages and the Baby Boomers retire, the U.S. must become less attractive to investors.

Chapter Nine Building a New Consensus for Reform

This job scam system depends on docile, passive officials kept in the dark. Nevertheless, there are several common-sense reforms.

Reform #1: Disclosure

Citizen demand for disclosure has already resulted in significant reforms in discriminatory banking practices and industrial pollution. It can also help reform the job subsidy scam.

Annual Deal-Specific Disclosure

Already adopted in 11 states, this program requires public reporting of costs and benefits. How much did each company receive? Where did the money come from, and what did the company do with it? How many jobs did it create, what do they pay, and are they full time? Are they accessible by public transit? What about healthcare coverage?

The company fills out a form, has it certified by the agency that did the deal and mails it to the state, which posts the data to the Web in spreadsheet form. This involves no disclosure of income tax returns, only the money deducted from income tax by means of a tax credit claimed in the name of job creation.

In 1998 Maine enacted a disclosure law in response to public furor over a disturbing episode with General Dynamics.

Hidden Taxpayer Costs Disclosure

Like Massachusetts and several others, all states should require annual disclosure by every company with more than 50 beneficiaries enrolled in Medicaid or the State Children's Health Insurance Program. Such reporting would inform taxpayers about back-door subsidies.

Big-Company Tax Disclosure to Shareholders

At present publicly traded companies must report the aggregate amount they pay in all state income taxes, a practice that can conceal freeloading in certain states. We should urge the Securities and Exchange Commission to amend its reporting rules to require a 50-state matrix in three categories: income tax, property tax, and sales, utility and excise taxes. Wouldn't you like to know your local tax dodgers?

Reform #2: Clawbacks, or Money-Back Guarantees

If a subsidy contract has a clawback clause, the taxpayers can get some money back from a company that fails to keep its part of the bargain. The typical clawback specifies the time the company has to achieve its goal, whether it be to create X jobs with

Y wages and Z benefits, or to invest Q dollars. Clawbacks are in use in 19 states and many more cities.

Reform #3: Job Quality Standards

The living-wage movement has made this the most widespread subsidy reform, where the recipient company must provide full-time jobs with decent wages and healthcare. At least 43 states, 41 cities and 5 counties attach such conditions to at least one job subsidy program.

Reform #4: Unified Development Budgets

Many state legislatures are flying blind, unaware of the tax breaks hidden among the maze of appropriations. One way to subject tax breaks to the same scrutiny as appropriations is to require an annual Unified Development Budget, a comprehensive inventory of all line items for economic development, both tax breaks and appropriations.

About a dozen states publish adequate records of this kind, and several more publish similar records that could use some improvement. Illinois was scheduled to begin in 2005.

Reform #5: Give School Boards Full Say on Abatements and TIF

Just as school boards must account for their expenditures, they should control their share of property tax revenue. They should have a full voting member on any board that streams property tax revenue away from schools. It should be the school board's right to approve or disapprove the school portion of any abatement deal.

Reform #6: Close Corporate Loopholes

Tax sheltering can be brought under control by means of combined reporting and throwback rules. Combined reporting thwarts the Delaware Passive Investment Company scam by requiring the company to report income as if subsidiaries were one entity. Throwback rules thwart the "nowhere income" scam by throwing back to the headquarters state profits not taxed in another state.

Reform #7: Repeal Single Sales Factor

States with Single Sales Factor can eliminate windfalls for the favored few and restore tax fairness by returning to the three-factor formula.

Reform #8: Register and Regulate Site Location Consultants

Because site location consultants operate as lobbyists, we should regulate them as such. They should register with state ethics boards, disclose clients and fees, accept pay from only one party per transaction and renounce success fees (commissions that incentivize the wrong site criteria).

Reform #9: Put Every Deal to an Official Vote

Too many deals are made by appointed boards. Every deal should be approved

by elected officials answerable to the public at the ballot box. This rule has applied in Minnesota since 1995, and has worked well.

Reform #10: A Federal “Carrot” Against Job Piracy

Just as the federal government withheld highway funding until states raised the drinking age to 21, it could incentivize this reform: Federal appropriations from Commerce and Labor would be contingent on the state’s refusal to pirate jobs from other states, its adoption of disclosure and its adoption of a unified development budget.

Reform #11: Smart Growth to End the “Economic War Among the Suburbs”

Encourage fair competition between older cities and newer suburbs.

Location-Efficient Incentives

For deals in metro areas that have public transit, the state should withhold subsidy unless the company makes the work site transit accessible (within 1/4 mile of a regular stop). Desired effects: jobs for workers without cars, more choice about how to get to work, better air quality, less traffic congestion.

Regional Sharing of Local Sales Tax Revenue

Regional sharing would end the perverse incentive for individual suburbs to pirate sales from others and overbuild retail space.

Regional Sharing of Some Property Tax Revenue

As a way of reducing tax disparities and helping older areas, the Twin Cities region shares 40% of the increase in commercial-industrial property taxes.

No “TIFing” of Sales Tax

The “TIFing” of property tax is bad enough; its extension to sales tax would be much worse.

No Subsidies for Paving Cornfields

Emulate Maryland’s Smart Growth Act, which says that you may receive subsidies if and only if your project is in a place whose infrastructure is already there or on the way. Otherwise you will receive no job subsidies, and you will pay for every mile of road, water, sewer and utility hookup. You, not the taxpayers, must pay for your sprawl. Can you think of a better way to favor infill construction and urban reinvestment?

No Subsidies to Sprawling Retail

States should confine their subsidization of retail deals to depressed inner-city markets with insufficient basics: groceries, clothing, prescription drugs, etc.

Reform #12: Community Benefits Agreements

These are legal contracts negotiated between community coalitions and developers to ensure that residents benefit from neighborhood redevelopment. A particular contract might give local workers the first chance at jobs, set living wage standards, specify affordable housing assistance, child care centers and other priorities unique to the community.

On completion of the agreement, the coalition supports the developer's application to the city for subsidies. If the application succeeds, the agreement joins the redevelopment contract between city and developer and becomes legally enforceable.

The Los Angeles Alliance for a New Economy pioneered these Community Benefits Agreements.

Will Some Subsidies Be Ruled Unconstitutional?

Shortly before the book's completion the U.S. Sixth Circuit Court of Appeals ruled that a corporate income tax credit from Ohio to DaimlerChrysler violated the Commerce Clause of the U.S. Constitution. The argument was that many subsidies are vulnerable because they involve interference with another state's commerce. Both sides have appealed to the U.S. Supreme Court.

Public Goods: A Positive Alternative for Creating Good Jobs

We stream too much money into private deals that are unaccountable and ineffective. We should get back to basics and invest more in public goods, especially our infrastructure and our skilled labor base.

Skills and Infrastructure: Our Neglected Jewels

Someday soon we may find our children with unqualified teachers, hospitals with too few nurses, roads jammed with traffic and sky-high bills for water, sewers and utilities. Those are some specifics of a projected shortage in skilled labor and a crumbled infrastructure. Skilled labor and a strong infrastructure are the bedrock foundation of a healthy economy, and ours are in deep trouble. When capital can flee at any time, a business can fail or a call center can move overnight, we would be wise to invest more in the infrastructure, which can't run away, and our labor force. Labor, more loyal to place than the typical call center, can at least take its skills to a new job if need be.

Aging Boomers, Slowing Growth

The imminent retirement of the 76 million born between 1946 and 1964 will mean the loss of an enormous pool of skilled labor. That loss, combined with the lower birth rates from 1965 to 2001, has meant a steady fall in the growth rate of the labor force. Labor grew by 2.6% in the 1970s, 1.6% in the 1980s and 1.2% in the 1990s. Further drops are predicted, and finally a flat line. From 1980-2000 we gained 35 million people in their prime-age work years of 25-54; we are expected to gain only 3 million in the first two decades of the 21st century.

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The Most Vulnerable Industries and Occupations

Our greatest danger is the imminent loss of people good at complicated things: teachers, librarians, bus drivers, psychologists, managers, tool and die makers, airline pilots and navigators, industrial engineers, pipefitters, registered nurses, chemists and a host of others. What will happen to our standard of living if we must buy such services abroad?

Healthcare: Skills Shortages Endanger Patients

Given a growing population that is living ever longer and a growing shortage of skilled medical professionals, our health care system is in big trouble. There was already a shortage of 110,000 registered nurses in 2000, expected to rise to 808,000 by 2020. The shortage will be worst in rural states. Health care experts agree that a shortage of nurses imperils both patients and the quality of health care.

Corporate Warning Bells

Suffice it to say that it is not only health care associations that find the situation alarming. Similar warnings about the need to improve skills have come from the Aspen Institute, a bipartisan think tank, the Committee for Economic Development, an elite corporate group, the National Association of Manufacturers and the National Science Foundation.

The Solution: Put Workforce Development First

The author urges drastic action in workforce development: early childhood and preschool programs, K-12, vocational education, apprenticeships, dislocated worker training, community college and state universities, incumbent worker retraining, English as a second language, graduate equivalency degrees, retraining for welfare recipients and the chronically unemployed, and training for entrepreneurs and small-business people.

State and city jobs programs that do not invest in the development of skills should be candidates for elimination. These suggestions are mostly contrary to current federal policy.

America's Crumbling, Disinvested Infrastructure

Over the past 20 years states and cities gave corporations hundreds of job-creation subsidies as they allowed our infrastructure to crumble.

The evidence is in a table prepared by the American Society of Civil Engineers (ASCE). The table presents letter grades for 14 types of infrastructure--from roads, highways and bridges to mass transit, dams and solid waste--for 1988, 1998, 2001 and 2005. A few types showed marginal improvement, but the overall grades gave little cause for rejoicing: C, D, D+ and D. Traffic congestion cost \$67.5 billion a year in fuel and productivity. Over 25% of our bridges are structurally deficient or obsolete. We spend on transit half of what we need just to maintain it. Wastewater systems threaten the gains in water purity made since 1972, the year of the Clean Water Act. Thousands of dams--2,600--are deemed unsafe, and our power grid needs \$50 billion toward modernization.

A poor infrastructure is a drag on job creation. The experts at ASCE think we could overhaul our infrastructure for \$1.6 trillion.

The Bottom Line: We Need Reinvestment, Not Disinvestment

In the words of the author: “In addition to the 12 reforms, this is my positive agenda for creating good jobs: reinvestment in skills and infrastructure, not more corporate disinvestment by tax dodging. The ‘solutions’ spawned by narrow corporate interests--like TIF for sprawling big-box retail or Single Sales Factor for manufacturing--were always dumb ideas. Now it is glaringly obvious: they are wasteful handouts we can no longer afford.” (LeRoy, 2005, p. 205.)

