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Climate Change Needed

The notion of what makes a "good business climate" needs to be radically rethought

By David Moberg, *In These Times,* October 19, 2005

What's the heart of the Bush plan to revive the hurricane-shattered Gulf Coast? Cutting business taxes and workers' wages--with dollops of federal contract money to a favored few corporate cronies. But that shouldn't be surprising. Whatever the domestic problem, his solution is similar. Bush may be especially single-minded in pursuit of this strategy, but it has a long history that helps to explain why inequality has grown in the United States over the past several decades and why the quality of public life and institutions has suffered.

In The Great American Jobs Scam: Corporate Tax Dodging and the Myth of Job Creation, Greg LeRoy tells an important part of that history--how corporations use the promise of jobs (or the threat of their loss) to avoid state and local taxes, win public subsidies and fatten their bottom lines at the expense of ordinary taxpayers and crucial public services, like educating children and maintaining an efficient physical infrastructure on which businesses and everyone else rely.

LeRoy, now director of Good Jobs First, a Washington-based research and advocacy group, has been on the front lines of the fight against mindless and destructive subsidies and tax abatements for business for many years, and both the knowledge he has gained and the passion of his convictions energize this chatty, clearly argued book. Even people who think they know all about how corporations wring concessions out of communities across the country will likely discover new twists to the old game and atrocities that seem incredible.

Take a recent deal that North Carolina struck with Dell to build a new computer assembly plant and distribution center. Dell said it would invest at least $100 million (maybe as much as $115 million) and create 1,500 jobs. To win that plum, North Carolina offered Dell subsidies worth roughly $267 million. Then Dell pitted three counties against each other in a bidding war for the precise plant site, winning another $37.2 million in subsidies. So the public will now be paying Dell roughly three times the cost of building the facilities--with no guarantee of the amount of investment or number of jobs.

This may be an unusually lucrative deal, but LeRoy reports that it is not uncommon for tax breaks to be so generous that companies pay no tax for at least one year of operation and often end up with negative taxes--and then are allowed to sell unused tax credits. And Wal-Mart--hardly a struggling enterprise--has received subsidies of more than $1 billion over its history from local and state governments to construct its stores and warehouses, then pays its workers so little and provides such skimpy benefits that its employees are the primary users of Medicaid health care subsidies for children in many states.

All told, state and local governments now provide roughly $50 billion a year in subsidies and tax breaks to corporations in the quest for jobs, but wages and benefits for most workers have stagnated or declined. Meanwhile, city and state budgets have often been strained, reducing funding for schools and other crucial needs, and nationally, the trend has been towards more regressive taxation.

Whether businesses are seeking subsidies to build a new facility or remain where they are, the scam works much the same: Exaggerate the benefits, create the illusion of competition and squeeze local governments for everything they're willing to give. All too often, state and local leaders, whether Democrats or Republicans, cave in to the demands, often with the support of labor unions. But in most cases, the businesses face no penalty if they don't deliver on their end of the deal. Indeed, many of the businesses that collect subsidies to create jobs actually reduce their job rolls and even close up shop and move on.

But, as LeRoy makes clear through both systematic research and anecdotal reports, tax breaks and subsidies are one of the least important reasons why businesses decide on a particular location. After federal deductibility, state and local taxes constitute less than 1 percent of the average company's costs. But the typical local politician usually has no idea of how a company planning a new investment will decide, or even who the company is.

There's a thriving business of consultants, some of whom earn a percentage of whatever subsidies they extract, who often work for both businesses and governments. With corporate help, the consultants work to prevent any collaboration among public officials, whom they try to keep in the dark and push into bidding against a fabricated set of "competitors."

Creating a friendly climate

The strategy of using public funds to lure jobs from other parts of the country got its start during the Depression with Mississippi's use of industrial revenue bonds--issued by the state and thus providing low-cost capital-- to build factories for footloose textile and other factories in the North. Many of these companies were already looking for cheap labor and an anti-union environment (and in many parts of the South local officials sought only businesses that did pay poorly and were anti-union so as not to raise local standards). But the practice became a hot issue starting in the 1950s and has accelerated since then.

A Chicago-based company, Fantus, became the leader not only in the relocation business but in defining what came to be known as a "good business climate"--a notion, described by LeRoy as "brilliantly vague" and highly political, which hyperbolically paints both high taxes and labor unions as bad for business. Although the indexes of business climate that were generated were deeply flawed--states that had good-paying jobs, for example, were punished--they won the day politically.

As a result, there has been a rollback in taxes that corporations pay to states and local governments. One example cited by LeRoy is the single sales factor income tax now used in 10 states: Rather than tax multistate corporations on three factors--the share of its payroll, property and sales in the state--they are taxed solely on the basis of only their sales. But like many other tax breaks, if other states do the same thing then even its minimal theoretical advantage in retaining or attracting jobs is negated.

At the local level, there's been a profusion of property tax abatements, including "tax increment financing" (TIF) districts that redirect any growth in taxes from the TIF area to helping that particular district, not the general public coffers. Originally intended for depressed regions of a city, they're now used everywhere, and they especially hurt school districts, which often have no voice in establishing the TIF but lose taxes nonetheless.

Local areas lose in many other ways as well, particularly as the subsidy competition encourages sprawl, LeRoy argues. Increasingly, suburbs in fragmented metropolises compete against each other to capture big box retailers so they can gain a share of their sales taxes. But cities also lose out as they dump their scarce public funds into building sports stadiums that provide little economic payoff--except to the team owners.

Whether it's team owners or manufacturers, the business threats of losing--or promises of gaining--jobs are potent political forces, intimidating many government leaders who are afraid of being labeled responsible for a team or a factory that leaves town. But rarely do local officials have the expertise to evaluate the claims. Thus, they have no basis for challenging what is often simply a bluff, argues Peter Dreier, professor of politics and Director of the Public Policy Program at Occidental College. Often economic development officials accept uncritically the conventional views of what constitutes a good "business climate" and have incentives in their career for landing or keeping jobs at any cost.

Turning the tide

A few communities, often after getting stung by bad deals, have begun resisting the jobs blackmail, enacting legislation that sets performance standards for subsidies and permits the community to "claw back" subsidies if the company doesn't deliver. LeRoy offers a dozen major types of reforms, including much more disclosure of the costs and benefits of deals, higher standards for the quality of subsidized jobs, putting deals to an official vote (with a voice for all affected jurisdictions, like school boards), and a variety of "smart growth," anti-sprawl measures (such as regional sharing of sales tax revenue). Also, although the federal government has finally banned the use of federal funds for luring jobs from one location to another, LeRoy proposes that the federal government could also withhold some funds from states until they adopt certain reforms. And communities themselves can learn to negotiate community benefit agreements, requiring local hiring, living wages, labor-friendly practices and environmental amenities for any subsidized business development.

Recently, Deborah Groban Olson, executive director of the Capital Ownership Group and a longtime advocate of worker ownership, has proposed that communities giving businesses public subsidies should receive ownership shares in those businesses as a "fair exchange." That might involve setting up community trusts that would own the shares and use them to advance public interests. There are a number of intriguing precedents. In 1979, for example, the federal government bailed out Chrysler and received shares in the company that it sold seven years later at a profit, after Chrysler repaid its loan.

But as Olson observes, the political tide doesn't favor community ownership of corporations, even if it's in fair exchange for investments provided by the community. At its foundation, the "great American jobs scam" that LeRoy describes so comprehensively is a highly political movement that takes advantage of the fragmented, decentralized governmental system in the United States. It thrives on deceit and on the ignorance and weakness of local and state authorities, who are unable or unwilling to cooperate among themselves for the public good.

The response has to be a political movement that redefines a good business climate as one where workers are well educated and public infrastructure is well developed, as LeRoy argues. But such a political movement needs also to insist that a good social climate is as important as a good business climate, and that involves high standards of living, less inequality, a greater voice for workers and more corporate accountability. It may seem utopian now, but it was a commonly held view in this country 40 years ago. It could be again.

David Moberg, a senior editor of In These Times, has been on the staff of the magazine since it began publishing. Before joining In These Times, he completed his work for a Ph.D. in anthropology at the University of Chicago and worked for Newsweek. Recently he has received fellowships from the John D. and Catherine T. MacArthur Foundation and the Nation Institute for research on the new global economy.