

The Great Corporate Job Scam: Money for Nothing

By Greg LeRoy

Lurking within the records of most cities and states in America there lies a scandal. A tax scandal. A jobs scandal. A corporate and political scandal. Look up the names of corporations that have received taxpayer subsidies in the name of jobs. Almost every big company has gotten them, since the average state has more than 30 subsidy programs: such as property tax abatements, corporate income tax credits, sales and excise tax exemptions, tax increment financing, low-interest loans and loan guarantees, free land and land write-downs, training grants, infrastructure aid, and just plain cash grants.

Chances are you will find many companies that have failed to create or retain as many jobs as they said they would. Companies that are paying poverty wages or failing to provide healthcare to their employees. Companies that are abandoning our cities and sprawling onto farmland and natural spaces. Even companies that are outsourcing jobs offshore.

Dig a little deeper and you'll undoubtedly find companies that have not created any new jobs, even some that have actually laid people off since they got the subsidies. Others that have gotten paid just to move existing jobs from one place to another, where they are proclaimed to be "new."

How can they get away with this? Because the system is rigged. Corporations have it down to a science. They have learned how to chant "jobs, jobs, jobs," win huge corporate tax breaks—and still do whatever they wanted to all along.

That's the great American jobs scam: an intentionally constructed system that enables corporations to exact huge taxpayer subsidies by promising quality jobs, even when they fail to deliver. The other benefit often promised, higher tax revenues, often proves false as well.

This system costs taxpayers an estimated \$50 billion a year in total spending by states and cities.¹ The bottom of the iceberg is tax breaks. Those granted by states—income, sales, and excise—are

the least visible, least accountable, and most corrosive ways of funding economic development. Those granted locally—property tax abatements and diversions—are especially problematic for their harm to schools.

Metastasis of the Business-Friendly Climate

This system has a long history and many moving parts. It can be traced at least as far back as the Great Depression, but it really matured in the 1970s. By then, most of the key actors were in place: secretive site location consultants who specialize in playing states and cities against each other; "business climate" experts with their highly politicized interpretations of tax and jobs data; and an organized corporate network orchestrating attacks on state tax systems.

Today, this \$50 billion-a-year pot has spawned an even more elaborate cast of characters: rented consultants packing rosy projections about job creation and tax revenue; subsidy-tracking consultants to help companies avoid leaving money on the table; and even an embryonic industry to help businesses buy and sell economic development tax credits.

Maybe we could overlook all this chicanery if all boats were rising. But we are not getting higher wages, better benefits, a stronger tax base, or better public services. Instead, for the last quarter century,



most wages have stagnated or fallen, healthcare has become less affordable and available, and pensions have shrunk in number and value. States and cities have developed structural budget deficits, prompting cutbacks in everything from school programs to infrastructure maintenance.

The only clear winners are large corporations. For building new facilities in many states, companies are actually paying negative income taxes. Subsidy packages routinely exceed \$100,000 per job. Guess who's getting stuck with the tab? When the big boys pay less, the rest of us pay more, or the quality of our public services declines.

Defining Competition

At the core of this scandal are corrupted definitions of “competition” that obscure cause and effect. We must create no-tax zones for factories, say the governors, to be competitive with other states—even though the whole country is bleeding manufacturing jobs and the obvious issue is globalization. We have to create a new Tax Increment

Financing district and steal shoppers from neighboring suburbs, say the mayors, to compete for tax base—even though the metro area is strewn with dead malls.

These corrupted definitions salute corporate bottom lines while thumbing their noses at common sense, social science, and good government. They are the deliberate creations of a 50-year campaign by corporations to divide and conquer the states—as well as the suburbs. This corporate gospel of competition preaches that governments at all levels must not be allowed to cooperate, even if it takes litigation all the way to the Supreme Court, lobbying federal and state legislators, public relations campaigns, and consulting studies. Governments must not be allowed to cooperate. They must be kept in the dark and allowed into the room only when it's time to talk about subsidies.

States must not be allowed to compare notes to determine if companies are lying about competing subsidy bids or cheating on their income taxes. Instead, states must only be allowed to compete to

Photo:
Opponents of a proposed Wal-Mart attend a meeting of the Salina, New York, town planning board. The board approved Wal-Mart's final environmental impact statement, allowing the project to move ahead.

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see who will tax the least, or who will give the biggest tax gift to a trophy deal.

Cities and suburbs must not be allowed to cooperate either, even though their fates hinge upon the health of their regional economies, not upon individual deals. Instead, localities must compete for tax base by pirating jobs and retail sales from each other, even though it means chewing up farmland for wasteful sprawl, and throwing away older areas, poor people, and past infrastructure investments.

Internalized by public officials, these corrupted definitions prevent governments from cooperating in the taxpayers' interest. Business becomes the Alpha constituent. In these "public-private partnerships," government gets to play spigot. Public officials get to practice economic development with a Seeing Eye® dog.

At every level, the system demeans and degrades public officials: the economic development official forced to bid for an unknown company against unknown competing sites; the school board

members who have no say when property tax abatements corrode their budget; the revenue director whose sober advice is upstaged by the frothy projections of an economist rented by the Chamber of Commerce; the governor who overspends on a "trophy" project because she so fears the label "the governor who lost Mercedes." Those who would dare to ask an impertinent question are quickly singled out for ridicule and isolation: They must be against jobs.

Collateral Damage

Besides creating corporate windfalls, the great American jobs scam is causing all manner of collateral damage. It was used to blunt calls for trade reform long before the North American Free Trade Agreement. It bankrolls interstate job piracy. It corrodes state budgets. It subsidizes private prisons, concentrated animal feeding operations, and hundreds of Wal-Mart facilities. It is used to help bust unions. It subsidizes poverty-wage companies that saddle us with hidden taxpayer costs, such as

Photo: Immigrant rights advocates at a rally and candlelight vigil in Austin, Texas.

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Medicaid and Children's Health Insurance Program bills. It is helping create a massive tax-burden shift away from big companies onto working families and small businesses. It is diverting precious resources away from the two investments that really do grow good jobs—skills and infrastructure. And just don't get me started about stadiums.

The scam has also created mass confusion about cause and effect, about how little tax cuts and subsidies matter for jobs. The prevailing "business climate" ideology that plagues us today is a hangover from the meanest elements of the Old Economy. Our beliefs about taxes and jobs were shaped by a very politicized series of studies in the 1970s and 1980s that served the lobbying agenda of footloose manufacturers looking for cheap labor in the South on their way to Mexico or China. That agenda had no value for the rest of the economy then, and it is downright corrosive to succeeding in the New Economy today.

Much of our prevailing ideology about jobs and land is a hangover from a manufacturing site-location bias against cities, and a post-war consensus built around white flight from cities, concentrated poverty among people of color in older areas, and lots of subsidies for jobs out by the Interstate, be they factory, office park, or Wal-Mart. That consensus has left us with a sprawling, dysfunctional built environment that is harming our health and our economic competitiveness.

That the scam could get this far out of hand suggests a profound breakdown in whatever consensus we ever had about corporate responsibility to our society. The way you handle your money is your value system. By their rampant tax dodging, corporations are collectively saying: we don't care if the schools fall apart and the bridges are crumbling and the public health systems are impoverished and college is becoming unaffordable. We are not all in this together. We are not investing in our communities' futures. We are disinvesting.

The scam belongs in the dustbin of history. To put it there, we need strict accountability measures that will curtail private disinvestment and restore public reinvestment. By getting our taxpayer dollars out of private deals and into public goods, and by integrating our jobs strategy with land-use planning, we can spend less and get more.

We must eradicate the sub-scams that have grown up around the corrupted definition of competition and replace them with a healthy new form of competition in which places compete based on their assets, which are equally available to all employers: their skilled labor base, their infrastructure, their schools and universities, their entrepreneurial culture, their quality of life.

Fortunately, despite the siege of disinformation, there is a rich bipartisan history of reform that has created proven precedents to peel away the scam. The most important of these is disclosure. When more information is available about costs and benefits, many more people will get involved—and that's the scammers' darkest nightmare.

Getting a lot more people involved is the only way to challenge the prevailing ideology. Go to a conference of economic development professionals today and watch the public officials. You will never hear them crow about how well their working families are doing, about rising median incomes or declining dependency on Medicaid or fewer children suffering from asthma. But you will hear them touting big deals. And you will see them courting site location consultants and corporate vice presidents. That is what economic development in the United States has become. Welcome to the Great American Jobs Scam. ■

1. Kenneth Thomas estimated total state and local subsidies at \$48.8 billion as of 1996, and many states have enacted new subsidies since then. (*Competing for Capital: Europe and North America in a Global Era*, Georgetown University Press, 2000.) Peter Fisher and Alan Peters conservatively estimated total subsidies at \$50 billion ("The Failures of Economic Development Incentives," *Journal of the American Planning Association*, Vol. 70, No. 1, Winter 2004).

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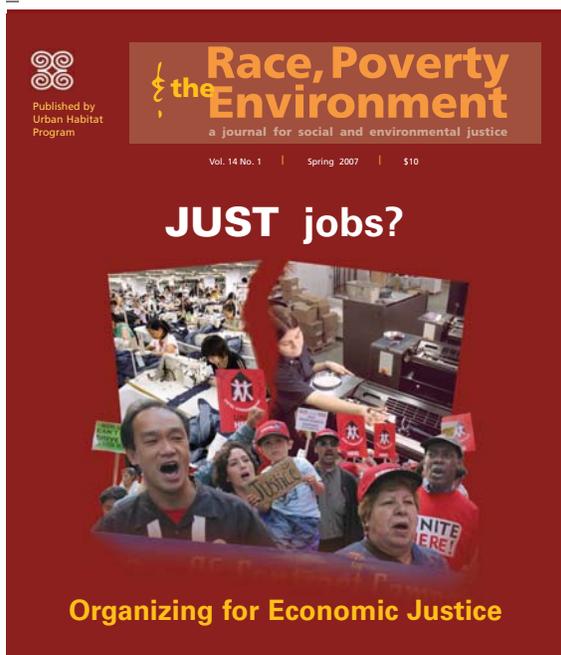
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