TO THE HIGHEST BIDDER

Corporations jump from town to town in search of the best public subsidy

By Neil deMause

For as long as anyone in the town of Waterloo, Iowa, could remember, there had always been a Waterloo Industries. Even as the local economy faltered and the John Deere plant made massive layoffs, the factory where workers made Sears Craftsman toolboxes remained, first sold to Beatrice—then to American Brands—but always a steady employer in this small city of 100,000 residents.

Then, in 1995, Waterloo Industries came to union leaders and announced that it had been offered $3 million by the town of Muskogee, Oklahoma, to relocate its plant there. The company gave the 300 workers a choice: Agree to 50 percent wage and benefit cuts or watch us leave town.

The union refused. And over the next two years, the Waterloo factory was dismantled and moved south.

The company's corporate headquarters remained in Waterloo, however, employing 120 workers in a building on the south side of town. But earlier this year, the company made another offer, this time to the city of Waterloo: Give us $2 million in land and tax breaks, and we'll build a brand-new headquarters downtown.

Over the shouts of dozens of former Waterloo Industries workers who packed the city council chambers to decry the subsidy, the council voted unanimously to take the deal. "This is one of the most important opportunities we've had in the downtown area for quite some time," said a local businessman after the decision. "It came at the expense of 300 jobs, but we can't do anything about that now."

For those Waterloo residents who are now out both a major employer and $2 million in tax money, the opportunity is hard to discern. "It's the worst example of corporate welfare," says Russ Woodrick of the Iowa Machinists Union, who notes that Muskogee is already giving Waterloo Industries $3,000 per job "created"—jobs that pay half the hourly wage of the Iowa plant. "We think it violates the intent of the law to move a business from one part of the city to another. But beyond that, there is the morality of it all—the people who are going to be taxed to make up for this money are the very people who are laid off and are going to have trouble paying their taxes."

The irony of a city rewarding a runaway, union-busting firm with tax breaks may be especially sweet, but the Waterloo Industries case is now business as usual across America. In the name of economic development, companies routinely receive "incentive" packages worth millions of dollars in exchange for agreeing to relocate their facilities or keep a current operation in town. The Waterloo deal was small-time by the standards of this interstate bidding war: A corporate heavyweight can swing a deal like the $253 million in tax breaks given to Mercedes-Benz by the state of Alabama in 1993, a "jobs package" that cost the state $170,000 for each job it created. Rio Rancho, N.M. (population 50,000), handed Intel more than $114 million in incentives and tax breaks in

1993. Intel was able to build a new computer chip plant, despite the fact that the town couldn't even afford to support its own high school.

The use of public money to fund private development is as old as the country itself. (Alexander Hamilton once received a tax abatement from the state of New Jersey for starting a business there.) But since the early '80s, public subsidies have become a strategy for stealing jobs from other states. Local governments, desperate to retain jobs by any means, increasingly bid against each other for everything from auto plants to shopping malls, without much regard for a return on their investment.

The menu of handouts includes not only tax breaks and direct grants, but such things as tax-exempt Industrial Revenue Bonds, which milk the federal treasury to provide artificially cheap money for private development projects. "Industrial Revenue Bonds go back to the '50s, when they were used by a lot of Southern states to steal industries," points out Greg Leroy, a researcher with the Service Employees International Union (SEIU), whose 1994 report *No More Candy Store* remains the most comprehensive look at local corporate welfare. "There is a long piracy history of programs that subsidize capital and land."

Even more expensive and less publicized than tax-exempt bonds is a device known as Tax Increment Financing (TIF). In a TIF, a local government takes the increased property taxes that result from new business development, and kicks them back to the company to help pay construction costs—in effect, letting businesses pay their taxes and keep them, too.

First developed in California in the '50s, TIFs took hold with a vengeance in the '80s. Minnesota, for example, now hands out more than $1.5 billion per year in state economic subsidies, half of which are made up of TIFs. The most famous TIF recipients, the developers of the mammoth Mall of America, received $105 million in TIF money from the city of Bloomington.

Malls and other retail projects get a hefty helping of available development subsidies, despite an obvious drawback: Since new stores don't generate more shopping—only shift it from one location to another—any jobs that result are likely being siphoned from a neighboring community. A recent study of St. Louis TIF projects found that most were retail projects, even though the demand for retail space in the metropolitan area is so high that plenty of development would take place anyway. Missouri TIF manager Michael Downing told the *St. Louis Construction News and Review* that the TIF process is working backwards: Instead of cities selecting underdeveloped areas to target for TIFs, "A developer typically walks into City Hall and says, 'I have an interest in doing a project, but I can't do it without a subsidy.' "

With all this money flowing out to fund private development, something in local budgets has got to give—and with tax hikes a tough sell in most areas, that usually means service cuts. TIFs, which draw off the property taxes used for school funding, hit especially hard. One Minnesota study found as much as $100 million a year in education funds being diverted to corporate subsidies.

Though local business subsidies are notoriously difficult to track, state and local corporate welfare is conservatively estimated to cost at least $50 billion a year. That's more than the yearly national budget for welfare grants and food stamps—and doesn't even include federal corporate subsidy programs, which, depending on how you slice them, amount to another $75 billion to $167 billion a year.

This explosion in corporate welfare has not come without opposition, often from odd ideological bedfellows. Both Ralph Nader and the Heritage Foundation are vocal opponents of public subsidies to corporations, though they differ over just what constitutes a "subsidy." Progressives focus on the social costs of diverting public money to private uses, while libertarians oppose direct grants but have no problem with tax breaks. And businesses that miss out on subsidies have joined the chorus of complaint, arguing that companies that receive taxpayer money for their projects hold an unfair competitive advantage.

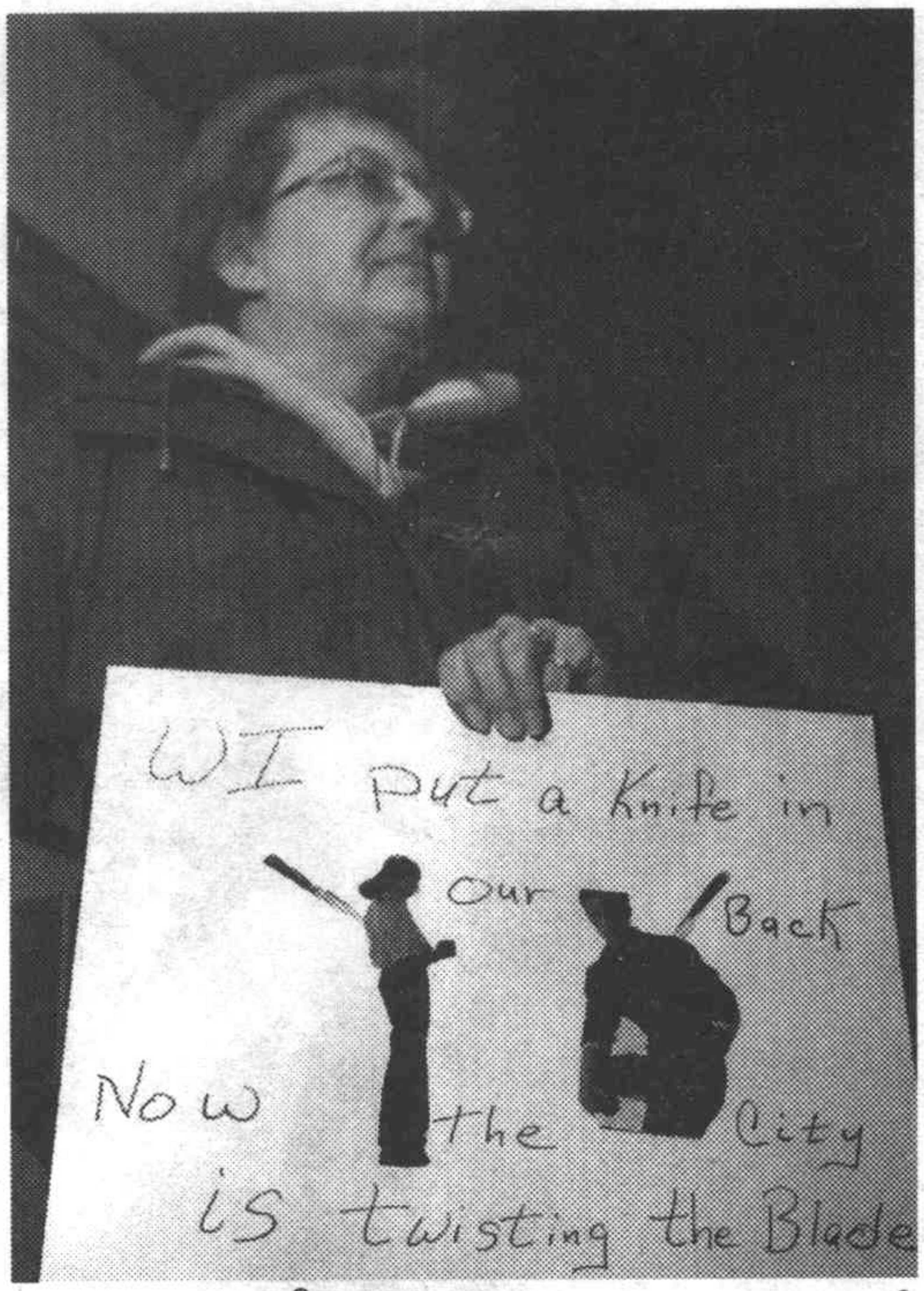
How to rein the practice in is another matter. Minnesota became the poster child for corporate welfare in 1992 when it handed $761 million in state grants and loans to Northwest Airlines for two new maintenance bases in a depressed region of the state—only to see the airline scrap the plants and keep most of the money. Outrage over the Northwest deal helped lead to passage of the state's Corporate Welfare Law in 1995, which requires that companies pay back all public funds if they fail to meet promised job-creation goals.

When the Minnesota Alliance for Progressive Action (MAPA) re-examined the results of the law last November, however, it made some startling discoveries. Reporting of subsidies had been haphazard at best, with many companies and even cities such as Minneapolis filing incomplete data or none at all. Several cities had handed out subsidies to companies that agreed to create as little as one minimum-wage job; others went them one better by subsidizing jobs retained, not created, an explicit violation of the 1995 law. And 13 companies that failed to meet even these limited job goals had nonetheless kept their state money. (One company, Morey Fish, accepted $934,000 and created zero jobs.) MAPA found it difficult to determine what, if anything, was being done to collect these funds.

When confronted by MAPA, officials in several cities claimed that these weren't really job creation programs, but rather were intended to provide needed services. As MAPA's Alexa Bradley recalls, some officials insisted that their constituents "really needed a Wal-Mart."

Efforts in other states had even more dismal results. A ceasefire agreement between the states of New York, New Jersey and Connecticut quickly collapsed, and the three states now spend about a billion dollars a year bidding against each other for business. Back in Minnesota, the ink was barely dry on a similar deal between the twin cities of Minneapolis and St. Paul when St. Paul Mayor Norm Coleman agreed to dole out $90 million to Minneapolis computer firm Lawson Software if it would relocate across the river. "They had an agreement not to compete. And the mayor of St. Paul says, 'I didn't go after him, he called me!' None of this stuff is enforceable," says Art Rolnick of the Minnesota Federal Reserve, who has

Waterloo Industries laid off 300 workers and moved its plant from Iowa to Oklahoma. In return, the city handed Waterloo $200 million.



argued stridently for an end to what he calls the "economic war among the states."

For this reason Rolnick and others believe federal action is necessary. Last November, Rep. David Minge (D-Minn.) introduced the Distorting Subsidies Limitation Act, which would levy a federal excise tax on all direct and indirect subsidies for specific corporations, essentially taxing all individual corporate handouts as income. (General programs available to a wide range of businesses, such as small-business loans, would be unaffected.) Under the proposal, nonmonetary gifts like land or infrastructure would be taxed as "imputed income" at the value of the property.

A $120 million bill from the IRS might make the owner of a baseball club think twice about that $400 million stadium he's asking local taxpayers to finance. Indeed, the owners of the Minnesota Twins were among the first to condemn Minge's bill, calling it a threat to the national pastime. "It would have a very negative impact on the ability of professional sport franchises to survive under current financial circumstances," says Twins spokesman Dave St. Peter.

Several state legislatures have already passed resolutions calling for federal action. "They feel that they can't unilaterally disarm," says Minge. Indeed, many corporate welfare watchers feel the issue of subsidized job raiding should be a no-brainer for Congress. "Nobody in their right mind will defend Uncle Sam paying Peter to rob Paul," says Leroy of the SEIU.

Yet early reaction to Minge's bill has been lukewarm. Fellow Minnesota Democratic Rep. James Oberstar told reporters he would "do all I can against" the bill, saying it would prevent rural districts like his from using subsidies to lure businesses away from urban areas.

The federal government is supposed to be above that sort of "IMBYism"—as opposed to the better-known "Not In My Back Yard" syndrome. Yet members of Congress must answer to their local districts, and a tangible record of "creating jobs" makes a better electoral plank than one of having blocked interstate competition—even if the competition itself costs constituents jobs. "We're challenging a whole way of thinking about subsidies," says MAPA's Alexa Bradley. "Most city officials, and probably many state officials as well, think that we are on the begging end of this—that we should be doing whatever we can to get whatever job possible, and we aren't in a position to think of ourselves as negotiators, and as investors. If we're going to be giving this money away at all, we should be making sure that we're getting a good return for the community."

One alternative is used by the nonprofit group Rochester Area Economic Development Inc. (RAEDI), which brokers high-return economic development deals (mostly through the use of TIF monies) for the city of Rochester, Minn. The group works to ensure that the public gets its money's worth, using such benchmarks as a $3,000-per-job cost, a $30 return in revenue for each public dollar spent, and a 5 percent limit on public investment in private projects. RAEDI also restricts its projects to businesses that are selling their goods and services outside of the area. "It's not a grocery store. It's not a retailer," says RAEDI's Gary Smith. "We're looking to bring new dollars into this economy, not recirculating dollars that are here."

Smith says he'd support a federal ban on all subsidies to private companies, though he doubts that will happen any time soon. "In a perfect world," he says, "if we got the public out of it altogether, it would probably be a better use of public funds." Yet with Congress stuck in IMBY-mode, and local elected officials afraid to be left out of the interstate job war, limiting subsidies to only the most productive may be the best short-term solution.

Leroy makes an even simpler distinction between good and bad subsidies. "Don't subsidize things that can run away," he says. "Don't subsidize private industry. Subsidize things that stay put, like infrastructure and education, things that have the highest possible long-term payoff."

Woodrick, the Iowa union organizer, would like to see an outright ban on tax money being used to move jobs from one state to another. "We're suffering the effects of the shutdown of this plant," he says. "Muskogee is buying jobs down there. Well, what happens if [Waterloo Industries] can't get their production up? Ten years later, they move to another community, and get millions more. This is ludicrous." ■

Neil deMause *is co-author of* Field of Schemes *(Common Courage Press), an investigation of sports stadiums and corporate welfare.*