CORPORATE WELFARE

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How would you like to pay only a quarter of the real estate taxes you owe on your home? And buy everything for the next 10 years without spending a single penny in sales tax? Keep a chunk of your paycheck free of income taxes? Have the city in which you live lend you money at rates cheaper than any bank charges? Then have the same city install free water and sewer lines to your house, offer you a perpetual discount on utility bills—and top it all off by landscaping your front yard at no charge?

Fat chance. You can't get any of that, of course. But if you live almost anywhere in America, all around you are taxpayers getting deals like this. These taxpayers are called corporations, and their deals are usually trumpeted as "economic development" or "public-private partnerships." But a better name is corporate welfare. It's a game in which governments large and small subsidize corporations large and small, usually at the expense of another state or town and almost always at the expense of individual and other corporate taxpayers.

Two years after Congress reduced welfare for individuals and families, this other kind of welfare continues to expand, penetrating every corner of the American economy. It has turned politicians into bribery specialists, and smart business people into con artists. And most surprising of all, it has rarely created any new jobs.

While corporate welfare has attracted critics from both the left and the right, there is no uniform definition. By [our] definition, it is this: any action by local, state or federal government that gives a corporation or an

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entire industry a benefit not offered to others. It can be an outright subsidy, a grant, real estate, a low-interest loan or a government service. It can also be a tax break—a credit, exemption, deferral or deduction, or a tax rate lower than the one others pay.

The rationale to curtail traditional welfare programs, such as Aid to Families with Dependent Children and food stamps, and to impose a lifetime limit on the amount of aid received, was compelling: the old system didn't work. It was unfair, destroyed incentive, perpetuated dependence and distorted the economy. An 18-month . . . investigation has found that the same indictment, almost to the word, applies to corporate welfare. In some ways, it represents pork-barrel legislation of the worst order. The difference, of course, is that instead of rewarding the poor, it rewards the powerful.

And it rewards them handsomely. The Federal Government alone shells out $125 billion a year in corporate welfare, this in the midst of one of the more robust economic periods in the nation's history. Indeed, thus far in the 1990s, corporate profits have totaled $45 trillion—a sum equal to the cumulative paychecks of 50 million working Americans who earned less than $25,000 a year, for those eight years.

That makes the Federal Government America's biggest sugar daddy, dispensing a range of giveaways from tax abatements to price supports for sugar itself. Companies get government money to advertise their products; to help build new plants, offices and stores; and to train their workers. They sell their goods to foreign buyers that make the acquisitions with tax dollars supplied by the U.S. government; engage in foreign transactions that are insured by the government; and are excused from paying a portion of their income tax if they sell products overseas. They pocket lucrative government contracts to carry out ordinary business operations, and government grants to conduct research that will improve their profit margins. They are extended partial tax immunity if they locate in certain geographical areas, and they may write off as business expenses some of the perks enjoyed by their top executives.

The justification for much of this welfare is that the U.S. government is creating jobs. Over the past six years, Congress appropriated $5 billion to run the Export-Import Bank of the United States, which subsidizes companies that sell goods abroad. James A. Harmon, president and chairman, puts it this way: "American workers . . . have higher-quality, better-paying jobs, thanks to Exim-bank's financing." But the numbers at the bank's five biggest beneficiaries—AT&T, Bechtel, Boeing, General Electric and McDonnell Douglas (now a part of Boeing)—tell another story. At these companies, which have accounted for about 40% of all loans, grants and long-term guarantees in this decade, overall employment has fallen 38%, as more than a third of a million jobs have disappeared.

The picture is much the same at the state and local level, where a different kind of feeding frenzy is taking place. Politicians stumble over one another in the rush to arrange special deals for select corporations, fueling a growing economic war among the states. The result is that states keep throwing money at companies that in many cases are not serious about moving anyway. The companies are certainly not reluctant to take the money, though, which is available if they simply utter the word relocation. And why not? Corporate executives, after all, have a fiduciary duty to squeeze every dollar they can from every locality waving blandishments in their face.

State and local governments now give corporations money to move from one city to another—even from one building to another—and tax credits for hiring new employees. They supply funds to train workers or pay part of their wages while they are in training, and provide scientific and engineering assistance to solve workplace technical problems. They repave existing roads and build new ones. They lend money at bargain-basement interest rates to erect plants or buy equipment. They excuse corporations from paying sales and property taxes and relieve them from taxes on investment income.

There are no reasonably accurate estimates on the amount of money states shovel out. That's because few want you to know. Some say they maintain no records. Some say they don't know where the files are. Some say the information is not public. All that's certain is that the figure is in the many billions of dollars each year—and it is growing, when measured against the subsidy per job.

In 1959 Illinois gave $240 million in economic incentives to Sears, Roebuck & Co. to keep its corporate headquarters and 5,400 workers in the state by moving from Chicago to suburban Hoffman Estates. That amounted to a subsidy of $44,000 for each job.

In 1991 Indiana gave $451 million in economic incentives to United Airlines to build an aircraft-maintenance facility that would employ as many as 6,300 people. Subsidy: $72,000 for each job.

In 1993 Alabama gave $253 million in economic incentives to Mercedes-Benz to build an automobile-assembly plant near Tuscaloosa and employ 1,500 workers. Subsidy: $169,000 for each job.

And in 1997 Pennsylvania gave $307 million in economic incentives to Kvaerner ASA, a Norwegian global engineering and construction company, to open a shipyard at the former Philadelphia Naval Shipyard and employ 950 people. Subsidy: $323,000 for each job.

This kind of arithmetic seldom adds up. Let's say the Philadelphia job pays $50,000. And each new worker pays $6,700 in local and state taxes. That means it will take nearly a half-century of tax collections from each individual to earn back the money granted to create his or her job. And that assumes all 950 workers will be recruited from outside Philadelphia and will relocate in the city, rather than move from existing jobs within the city, where they are already paying taxes.

All this is in service of a system that may produce jobs in one city or state, thus fostering the illusion of an uptick in employment. But it does not create more jobs in the nation as a whole. Market forces do that, and that's why 10 million jobs have been created since 1990. But most of those jobs have been created by small- and medium-size companies, from high-tech startups to franchised cleaning services. FORTUNE 500 companies, on the other hand, have erased more jobs than they have created this past decade, and yet they are the biggest beneficiaries of corporate welfare.

To be sure, some economic incentives are handed out for a seemingly worthwhile public purpose. The tax breaks that companies receive to locate in inner cities come to mind. Without them, companies might not invest in those neighborhoods. However well intended, these subsidies rarely produce lasting results. They may provide short-term jobs but not long-term employment. And in the end, the costs outweigh any benefits.

And what are those costs? The equivalent of nearly two weekly paychecks from every working man and woman in America —extra money that would stay in their pockets if it didn't go to support some business venture or another.

If corporate welfare is an unproductive end game, why does it keep growing in a period of intensive government cost cutting? For starters, it has good p.r. and an army of bureaucrats working to expand it. A corporate-welfare bureaucracy of an estimated 11,000 organizations and agencies has grown up, with access to city halls, statehouses, the Capitol and the White House. They conduct seminars, conferences and training sessions. They have their own trade associations. They publish their own journals and newsletters. They create attractive websites on the Internet. And they never call it "welfare." They call it "economic incentives" or "empowerment zones" or "enterprise zones."

Whatever the name, the result is the same. Some companies receive public services at reduced rates, while all others pay the full cost. Some companies are excused from paying all or a portion of their taxes due, while all others must pay the full amount imposed by law. Some companies receive grants, low-interest loans and other subsidies, while all others must fend for themselves.

In the end, that's corporate welfare's greatest flaw. It's unfair. One role of government is to help ensure a level playing field for people and businesses. Corporate welfare does just the opposite. It tilts the playing field in favor of the largest or the most politically influential or most aggressive businesses. In the next story, and those that follow in the coming weeks, you will meet the beneficiaries of corporate welfare—and the people who pay for it.

States at War

Arkansas

Ever Try to Drink a Potato Chip?

The water in Evansville, Ark., stinks—literally.

The town sits smack atop a geological formation where sulfur, natural gas and other petroleum products mingle with the groundwater. The result is a nasty mix that is unusable to residents. Many of the town's wells are also contaminated with potentially deadly *E. coli* pollutants. So a commodity most Americans take for granted simply does not exist in Evansville. "My five-year-old daughter doesn't know what it's like to get water out of a faucet," says resident Helen Martin. For the past five years, 200 families in this hamlet in the northwestern part of the state have sought $750,000 from the Arkansas Economic Development Commission for a new water system. Sorry, comes the reply, there is no money in the budget.

City water in Jonesboro, Ark., doesn't stink. In fact, even wastewater flowing out of the big, new Frito-Lay plant there runs through an expanded treatment facility in order to minimize environmental problems. That expansion was part of a multimillion-dollar incentive package the AEDC gave Frito-Lay to lure the company to Jonesboro. Frito-Lay is not exactly needy. It is a profitable subsidiary of PepsiCo Inc., the giant soft-drink and snack-food company, that had sales of $20.9 billion in 1997.

Evansville is one of the minor casualties in the war among the states over jobs. Money is lavished on would-be employers even at the expense of some citizens' basic needs. But in the minds of state politicians and economic developers, this is a small price to pay. From a purely economic point of view, they are dead wrong. But economics and politics are seldom a rational mix.

Jonesboro got its plant after the community and state agreed to enlarge the sewage-treatment facility and provide an array of other economic incentives. Exactly how much aid was pumped into Frito-Lay to build the plant is not easy to find out. A Frito-Lay representative said the information was "proprietary." An AEDC representative, Michaela Johnson, was equally secretive, saying, "That whole project's confidential. We can't divulge that."

Based on reports published when Jonesboro was recruiting Frito-Lay, and on more recent information obtained from other sources, [we] estimate the value of the Frito-Lay aid package at more than $10 million. And that is in addition to $104.7 million in industrial-development revenue bonds issued by the city of Jonesboro to build and equip the potato-chip plant. The other incentives include the 140-acre plant site, a rail spur, road improvements, a construction grant, tax credits for new employees and a 20% discount on sewer bills for the next 15 years. That sewage-treatment plant, by the way, cost $7 million and is large enough to accommodate a second city the size of Jonesboro (pop. 50,000). So for each of the 165 workers at the plant, the government has invested $61,000—which is a lot of chips.

Lynn Markley, a spokeswoman for Frito-Lay, says the company selects the general region where it wants to locate a new plant. It then prepares a sort of shopping list of requirements for the facility and contacts states about incentives.

"When we need to . . . build a plant, say, in Jonesboro, [we] look at a 150-mile radius to the center of the market; says Markley. "We knew we needed a plant in the Tennessee-Arkansas-Missouri area. So with very detailed information, we contacted those states and gave them very specific details on what we needed . . . [And] based on that, the states compete."

Meanwhile, in Evansville the campaign for clean water goes on, and the citizens cope as best they can. Says Janie Watkins who along with her husband runs the town's only grocery store: "If we take a bath, we don't wash clothes. If we wash clothes, you can't take a bath. Most people get a bath every day. We can't . . . You get [a bath] every two days or three days, you're lucky."

Christina Seward, mother of three small children, says her boys love to drink water "But I don't have to tell them not to drink this water," she says. "The taste, the dirt—you wouldn't want to drink it. You put water in a glass, and you can see the dirt settle to the bottom. We don't know what's in it—we just know it's not safe."

Indeed, the Sewards' well was tested by the Arkansas Department of Health in 1996 and found to be contaminated with particles of fecal matter "too numerous to count." The Sewards use well water only to wash clothes, but not light-colored articles. The water turns "white things yellow," says Seward.

In order to drink, cook, bathe and wash, residents haul bottled water from nearby towns or load up on barrels from natural springs in the hills above Evansville. Since their campaign for water began, residents have appealed repeatedly to the state to provide a share of the $1.5 million project. "We've done everything they wanted us to do," says Kaye Trentham, who operates K.T's Café. "But we still don't have water."

The Evansvilles of America are growing in number as the job wars intensify. Since the 1980s, states have added one economic-incentive program after another to retain existing corporations and lure new ones. Even states that once refused to compete are reversing course. North Carolina, which had long shunned big-ticket deals, abruptly shifted gears last summer and enacted the Economic Opportunity Act of 1998. The first two beneficiaries:

- Federal Express, the global delivery service with headquarters in Memphis, Tenn., that had 1997 revenues of $11.5 billion, will receive $115 million in state tax concessions and other economic benefits to build a hub at Greensboro, N.C.
- Nucor, a company based in Charlotte, N.C., that operates steel mills in half a dozen states and had 1997 revenues of $4.2 billion, will receive $155 million in

state economic assistance to build a mini-steel mill in Hertford County in the northeastern corner of the state.

Why has North Carolina joined in the great scramble to give away incentives? The same reason all the other combatants are in it: jobs. Or at least job announcements. As John Hood, president of the John Locke Foundation (a Raleigh, N.C., public policy institute that advocates individual liberty, a free-market economy and limited government), put, it, "Creating jobs is not the goal of these [economic-incentive] programs. The goal of these programs is to create job announcements."

And create them they do.

Said David N. Dinkins (then mayor of New York City) in October 1993, on $31 million in incentives awarded to Kidder, Peabody Group Inc.: "The decision by Kidder, Peabody demonstrates in dramatic fashion that our job-retention strategies are working."

Said Jim Rout, mayor of Tennessee's Shelby County (where Memphis is located), in July 1995, on more than $20 million in incentives given to Birmingham Steel Corp.: "These are not expenses—they're investments. These kinds of investments will pay off . . . It represents skilled, well-paying jobs."

Said Frank O'Bannon, Governor of Indiana, in March 1997, on a $1.7 million tax abatement to Crown Equipment Corp. for a plant in Greencastle, Ind.: "With at least 200 good-paying new jobs, this expansion will be an important addition not only to Putnam County's economy but to all of west-central Indiana."

Said Christine Todd Whitman, Governor of New Jersey, in May 1997, on millions of dollars passed around to four large businesses under the state's new Business Employment Incentive Program: "This is what the BEIP was meant to do, create jobs and increase opportunities for New Jersey families . . . This is . . . a red-letter day for jobs [in New Jersey]."

Don't believe it.

Jobs are created, of course, by the American economy—not by this process.

[Our] investigation has established that almost without exception, local and state politicians have doled out tens of billions of taxpayer dollars to businesses that are in fact eliminating rather than creating jobs. Some of the money has gone to prop up individual companies and avoid the consolidation within industries that an unfettered market would bring about. Some has been pumped into profitable companies, making them more profitable. Some has been awarded to companies that have threatened to move if they don't get it. Some has been diverted to businesses that local politicians have somehow divined will be more successful than their competitors. And last, some has gone to entire industries that are shrinking.

Witness a $300,000 grant to Anchor Glass Container Corp. last year, described by Pennsylvania Governor Tom Ridge's administration as part of an effort "to retain 275 existing jobs" at the firm's Connellsville, Pa., plant.

Retain 275 jobs?

A decade earlier, in 1987, Anchor Glass employed 9,900 people nationwide—about 1,000 of them in Pennsylvania. By the time the company began seeking economic incentives, more than half the work force had vanished as employment plunged to 4,500. Two plants were closed in Pennsylvania. And just a few months earlier, the Connellsville plant had completed another round of layoffs, bringing the total for the year to 200. The company was telling the state all it needed to know about what kind of future it saw in Connellsville.

Cities go to extremes to keep jobs in the manufacturing sector, partially because they pay more than most service jobs. Here is how Edward G. Rendell, mayor of Philadelphia, explained why last year $307 million in local and state economic incentives in addition to $119 million in federal aid was being given to Kvaerner ASA, Europe's largest shipbuilder: "Those are good, honest jobs that pay a living wage and significant benefits. Jobs you can build a family on."

True enough. But Rendell cannot reverse the tide of economic forces. And no industry is a better example of the futility of subsidies than American shipbuilding. It has not been a vital U.S. business for decades. Yet surplus shipyards continue to be kept alive by subsidies from local and state governments, the Federal Government and sometimes all three. Without this aid, consolidation would have occurred long ago—as it has in virtually every other field, from defense to banking. Avondale Industries in New Orleans, for example, first went on the corporate-welfare rolls in the 1930s, when the state waived payment of personal property taxes. It's still on the dole today. Over the past decade, Avondale has been excused from paying $8 million in property taxes alone.

Nebraska
The Job Is Meaty; The Pay Is Not

Not long ago, the state of Nebraska created an authority to dispense corporate welfare. It's called the Nebraska Quality Jobs Board. So what does the board consider a "quality job"?

Well, when do you want to go to the bathroom? In the morning or the afternoon? Pick one or the other. Not both. That is your choice at Nebraska Beef Ltd., an Omaha beef-packing company and jobs-board beneficiary. Listen to a young Mexican worker—he has taken a few days off at the suggestion of a supervisor, who noted that immigration agents were coming to the plant to inspect citizenship papers. Listen as the worker describes his daily routine on the factory floor, where he wields a 6-in. knife, slashing carcasses on an assembly line that never slows:

"We tell the [supervisors], 'Hey, I want to use the rest room.' [They say,] 'O.K., 10 minutes. Go now.' [That's] only once a day [you can go] . . . I have to think if I can go drink some water because I know I'm going to have to go use the rest room." He continues: "We start at 6 o'clock in the morning. But I got there at 5 o'clock to just get ready, drink my coffee, work my steel . . . If we work 10 hours, they give us a break at 2:30. If we was going to go nine hours, they don't give us no break."

Nebraska Beef is the entity that got the breaks. The jobs board awarded the company an estimated $7.5 million in tax credits in 1996, as well as a laundry list of other benefits. The award was all the more curious because the company had started work on its new plant before the board even existed. Other aid has pushed the total value of giveaways to Nebraska Beef to between $24 million and $31 million.

An exact total is not available, since the state refuses to disclose the amount of taxpayer funds for this or any other approved project. But Nebraska does say that the tax credits were extended under programs that "could substantially reduce or even eliminate [a] company's tax liability."

When state lawmakers created the jobs board in 1995, they had in mind "major business expansion and relocation projects needed to stimulate the growth of populations and create better jobs for the citizens of Nebraska."

At Nebraska Beef, many of the workers are not citizens, in part because even hard-working Nebraskans aren't likely to come running for jobs that start at about $8 an hour for such grueling labor. Nebraska Beef employees can count on a raise of 25¢ an hour every year they stay on the job, which means that in two years, a butcher is making $8.50. That is $17,680 a year for a 40-hr. week, about $1,200 above the poverty level for a family of four.

Not surprisingly, Nebraska Beef goes through employees the way it does carcasses: at one point, 50% of the workers who completed state training for their jobs were gone within 10 months. A review by the state auditor of public accounts showed that Nebraska Beef had used at least a million dollars in state funds in one year to train workers who eventually left their jobs. The audit noted dryly, "It would appear the number of employees no longer employed with the company and amount of money spent for job training on these individuals was not in the best interest of the state of Nebraska." . . .

New York
When Factories Become Fixer-Uppers

Defenders of economic incentives like to say that safeguards can be built into the law, so that if companies fail to deliver on the promised number of jobs, they can be required to pay back the taxes that have been canceled. If you believe that, it might be worth pondering the story of ABB Instrumentation Inc. in Rochester, N.Y. The company, which makes industrial instruments, is a subsidiary of ABB Asea Brown Boveri Ltd., the giant Swiss and Swedish conglomerate with interests in power generation, transmission and distribution.

In 1991, ABB applied to the County of Monroe Industrial Development Agency, requesting tax breaks and other incentives to move from its aging downtown Rochester location into a new building in a suburban industrial park. The company explained that its plant, built in 1906, was in a "declining industrial neighborhood on the west side of Rochester." ABB said there had been "no significant cost improvements or modernization . . . since 1950," which threatened its "ability to compete in a tightening world market." In short, neither ABB nor its predecessor had spent money updating the plant.

Nonetheless, the company was quite blunt about what it would do if economic aid was not forthcoming: relocate to Ohio, or England, or even Mexico or Venezuela. Only then did COMIDA agree to issue $21 million in industrial revenue bonds, with ABB using the proceeds to erect a new building. COMIDA excused the company from paying sales tax on materials to construct the plant. And it waived a chunk of ABB's real estate taxes for 10 years. Overall, the tax breaks were worth about $5 million.

To secure a real estate–tax abatement, a company is required by Monroe County to guarantee that it will create 25 new jobs. If it fails to do so, it must refund a portion of the reduced taxes. ABB promised to boost employment at the new facility from 723 workers in the first year to 819 by the third. Instead, even before moving into its new building, the company began cutbacks. By December 1996, ABB reported that its work force totaled just 393. In short, rather than creating the 25 positions required by the county, ABB eliminated 426 real and projected jobs.

Then ABB cried poverty, telling the development agency, "If you rescind the tax exemption, we'll owe $1.2 million in taxes, which we can't afford."

To date, Monroe County has waived collection. Thus, a division of a multinational company—which had sales of $31 billion last year—received some $26 million in tax breaks and economic aid. For what? To eliminate 426 jobs.

After failing to keep a facility up to date, a company claims a plant is "archaic" and threatens to close it unless government officials come up with incentives to help pay for modernization. That is what happened in Louisville, Ky., where a much larger conglomerate, General Electric Co., said that to meet profit goals, its plant had to be modernized—with taxpayer dollars. This from a company that appears at the top of the lists of the "best managed" corporations in America, whose revenue last year reached $91 billion and whose earnings topped $8 billion.

GE, which over the years had failed to update a washing-machine factory in Louisville—described as an "obsolete facility" that is "just one step above archaic"—threatened to close it unless state and local governments helped subsidize its modernization and 7,000 hourly employees agreed to cost-cutting work rules.

Faced with this threat, Kentucky officials hired Coopers & Lybrand, an accounting and consulting firm, to conduct a study—paid for by GE—on whether the company really intended to turn out the lights. The answer Coopers & Lybrand came up with: yes.

It is not clear why the state of Kentucky believed it was the responsibility of taxpayers to improve GE's profit margins. Nevertheless, in 1993, Kentucky granted $19 million in income tax breaks over 10 years to the washing-machine factory in GE's sprawling Appliance Park complex. The city of Louisville and Jefferson County kicked in an additional $1 million.

The tax break notwithstanding, employment in Appliance Park continues to fall. Last February, GE announced that over the next two years, 1,500 jobs would be eliminated as range and dryer production is phased out and moved to Georgia, where wages are lower, and Mexico, where wages are much lower. Today 6,200 people work in Appliance Park—down 72% from a high of 22,250 in 1973. . . .

Alabama
Singing Lessons from An Auto Company

There was no question that like UPS, Mercedes-Benz was going to build a plant someplace in this country. First of all, the U.S. is an important market for Mercedes; second, wages and more flexible work schedules make manufacturing costs lower here than in Europe.

Lower than Mercedes-Benz ever imagined. Alabama taxpayers essentially built and equipped a new plant for the company in the tiny town of Vance, a few miles east of Tuscaloosa. Mercedes received a package of incentives that totaled $253 million in value. For example, Alabama acquired and developed the plant site in Vance for $60 million. It used National Guard troops to clear the land and spent $77.5 million on utility improvements and roads.

The Mercedes-Benz plant illustrates a fundamental principle of corporate welfare: everyone else pays for economic incentives—either with higher taxes, fewer services or both.

To understand this, go to the Vance Elementary School, located a football field or two from the plant. Of course, you cannot actually see the school building. That is because it is surrounded by portable classrooms—17 in all. They are being added at the rate of two a year. Inside the school, the results of crowding 540 pupils (expected to be 700 to 800 within the next two years) into a building designed for 290 are readily apparent—a marked contrast with the roominess of the $30 million training school the state built for Mercedes. Throughout the school day, students stand in line to take their turn in one of the six tiny rest rooms serviced by a septic system, which produces its own unpleasant consequences on occasion, since the septic tanks were also built for 290 pupils. That contrasts with the new sewer lines the state laid for Mercedes. Then there is the cafeteria. Because of the overcrowding, lunch starts at 10:30 A.M.—soon to be 10:15—not long after many pupils ate breakfast. Last there is the safety issue. Vance and other schools in the area are in the middle of tornado alley. Whenever a tornado watch is sounded, the portable classrooms are emptied, and pupils are shepherded into classrooms in the main building.

To be sure, Mercedes is not responsible for all these deficiencies. Alabama traditionally has ranked near the bottom of the 50 states when it comes to education. But the presence of Mercedes has not added anything, except more students.

Nevertheless, at the elementary school, principal David Thompson is an unabashed Benz booster. When the school needed extra buses to transport pupils to the ballet, Thompson said, Mercedes provided them. And when the car company learned the school was mounting a production of *Hansel and Gretel*, it dispatched several of its expats to help the pupils learn German songs. The experience made a lasting impression on the students. As Thompson put it, "They couldn't tell you your multiplication tables if you asked them. If you say, 'What's 9 times 7?', they probably have already forgotten it. But they can still sing those songs in German."

Ohio
Does GM Mean General Movers?

Given the money politicians are willing to spend, it is no wonder companies have made their assets portable—game pieces that can be moved around the board of economic development. General Motors Corp. has played the game like a champion, a classic example of a company that has secured hundreds of millions of dollars in corporate welfare at the same time that it has eliminated thousands of jobs. And, according to business analysts, GM has to eliminate 50,000 more jobs if it wants to survive the next century.

In effect, the company is in the process of auctioning its surviving jobs to the highest bidders in the communities where it does business. Here's how it works: during the summer of 1997, GM let it be known that it was considering a $355 million expansion of an assembly plant in Moraine, Ohio, to build sport-utility vehicles. The decision would hinge on the size of tax breaks granted by the city government. After all, two other cities with GM truck plants—Shreveport, La., and Linden, N.J.—were vying for the new facility. At least that is what GM officials hinted to Moraine officials. And that is what the local newspaper, the Dayton *Daily News*, duly reported.

There was one problem. The story GM floated was not true. Company executives later apologized for any misunderstanding. Erroneous claims aside, Moraine agreed to exempt General Motors from taxes on $355 million worth of machinery, equipment and inventory for 10 years and to excuse the company from real estate taxes for 15 years on the planned $65 million building.

So how much did GM save? Moraine city officials will not say, but county officials estimate GM is off the hook for $30 million in real estate and personal property taxes. GM also put the touch on the county economic-development authority for a cash grant of $1 million.

GM extracted the concessions at a time when the company's profits for 1995 and 1996 totaled $11.8 billion. To put that figure in context, it would be enough money to run the West Carrollton schools, where most Moraine children attend classes, for the next 400 years. As 1997 gave way to 1998, GM dangled the possibility of yet another plant before the Moraine city fathers, and they jumped. This time the tax relief amounts to an estimated $28 million—or about $156,000 for each of the 180 new jobs to be created.

One final twist: Moraine employees will be hired under a new, three-tiered wage scale, with workers starting at about $9 an hour. Once upon a time, the starting wage for such jobs was in the double digits. Nonetheless, Mayor Roger Matheny said that "this offers us job security and lets us know GM is going to be here for a long while."

Not necessarily. Other communities have showered tax breaks on GM and its partners, assuming they would create or at least retain jobs. They were wrong. Volvo-GM closed a jointly owned plant (GM was the minority partner) in Orrville, Ohio, in 1996—just seven years after the county cut property and inventory taxes in half. Some 400 jobs were lost. The two automakers moved operations to Pulaski County, Va., where millions of dollars more in economic incentives awaited.

In 1984 and 1988, Ypsilanti Township, Mich., granted 12-year tax abatements on $250 million worth of new equipment and machinery that GM installed in its Willow Run assembly plant. On its application for the second tax abatement, GM said no new jobs would be created but 4,900 existing jobs "will be retained as a result of the project." A GM executive reaffirmed the company's commitment at a township board meeting.

But in February 1992, GM announced it intended to close Willow Run and move production to Arlington, Texas, where it got a better deal. The township countered with a lawsuit, charging that the tax abatements created a binding obligation. A local judge agreed, accusing GM of "having lulled" the people of Ypsilanti and then trying to skip town. The state court of appeals reversed the decision and concluded that "hyperbole and puffery" in seeking tax breaks "does not necessarily create a promise." . . .

GM executives say they merely do what everyone else does. Moreover, they say, local and state governments often come calling on them. As a GM official explained, when Saturn was conceived, it was a clean sheet, a new type of plant representing a huge investment. Once it became publicly known what GM was planning, he said, "we received proposals from every state in the union except Hawaii and Alaska. We had file cabinets full of material from every state . . . Every one had to be responded to. It took on a life of its own."

Yet there had to be states that knew GM could not build there just for logistical reasons, he said. Nevertheless, government officials submitted formal proposals so they could tell their constituents they had at least tried. "[A politician] always wants to be perceived as someone who tried to bring home the bacon, even if the bacon doesn't arrive."

And that is where the real blame for corporate welfare rests.

As Ohio state senator Charles Horn, a persistent critic of tax abatements, put it when commenting on concessions granted GM, "We know companies are manipulative, but it's the nature of business to go after every dollar that's legally available. Don't place the blame on the company; place the blame on government. This is government's folly."

QUESTIONS FOR DISCUSSION

1. How widespread is the practice of corporate welfare? Can you offer other examples from your own state or community?
2. How do states compete with one another for corporate business? What are the effects of this competition?
3. Think about commonly held attitudes about welfare to poor individuals. Are attitudes toward corporate welfare different? Why or why not?