

Op-ed on Targeted Incentives System

By Robert F. Orr

The opening statement in a recent Wall Street Journal front page article (WSJ Feb.2, 2009, by Stephanie Simon) succinctly summarizes the problem: "Rising unemployment has touched off a race among state governors to woo companies with tax breaks and financial incentives, even as budget shortfalls force cuts in education, health care and other services." As state and local governments bleed revenue and reduce services, the corporate targeted incentives game goes on, pitting one state against another and even communities within states against each other in a desperate gambit to secure jobs. The Obama administration and congressional leaders have so far failed to address this blatant waste of public resources while large international corporations, many foreign owned, continue to play competing state and local governments like the proverbial trout on the line.

Proponents of this targeted incentives system, mainly those that profit from the system, cite the foreign competition for jobs that American companies face as justification for the practice. Foreign competition is a valid concern, but the solution is not a free-for-all for jobs that are inevitably going to stay stateside. If we want to address job competition with foreign countries then the federal government must adopt uniform policies and laws that protect American jobs from being lost overseas. That's not what is going on nor what this issue is all about. It is instead about the ability of these corporate entities to extract tax dollars in direct grants and tax breaks exclusively for their individual businesses in exchange for a pledge to locate a facility in a particular state. In many instances, we see these targeted incentives used to reward a corporation for moving jobs from one state to another or in some instances simply for not moving. The move subsidized by the successful suitor might help that state, but that success comes at the expense of the losing state.

In North Carolina, the targeted incentives game has been played aggressively over the past decade. In 2004, the state induced Dell to build a manufacturing plant in North Carolina, giving them \$270 million in various grants and tax breaks. Dell then played several local communities against each other, obtaining an additional \$30 million in local government subsidies. It turned out that the manufacturing plant was really just an assembly operation for foreign-made parts, and we have recently learned that with a declining desktop market, the

plant may close in the near future. Several years after the Dell giveaways, North Carolina was in a bidding war with other states, including South Carolina for a Google server farm. North Carolina “won” by promising Google several hundred million in targeted grants and tax breaks. The fact that Google still located additional server farms in South Carolina and other states that North Carolina was competing against seems lost on elected officials. To see how far this game has gone one needs only to examine the increasingly unreasonable efforts several states like North Carolina, South Carolina and Louisiana have gone to in order to attract the film industry to their respective states. It’s like the old nuclear arms race. We have to keep increasing our giveaways because the other guy keeps increasing his. North Carolina’s new Secretary of Commerce, J. Keith Crisco, Jr., recently noted, “I’m staggered what the competition is with other states.”

There is an endless stream of examples from around the country of how the powers of “economic development” have exploited the need for jobs in a declining economy and extracted millions of dollars in individual cases and collectively billions across America in targeted incentives. So who pays for it? We all do in a variety of ways. Funding for education, infrastructure improvements, and basic governmental services takes the hit while established businesses, particularly small businesses, don’t get these breaks and end up having more of a tax burden piled on them. Politicians love to be able to have that showy ribbon cutting when the new, big-name corporation announces it’s coming to town and bringing high paying jobs to the community. But what about all those other long-established companies that year in and year out have supported the state and local communities through their taxes and civic investments? As these companies struggle to compete, those billion dollar giants who collect targeted incentives avoid many of those same taxes and, if times get tough, they have no reservation about shutting the local operation down and heading elsewhere.

So, what’s the solution? As so many observers and participants in the system have acknowledged, we need a national solution. Crisco also commented, “If all the states would get together and stop incentives, that would be nice.” We need President Obama to take the lead in getting Congress to put practical and effective limits on the use of targeted incentives across the fifty states. This simply means that under the Commerce Clause powers granted to Congress by the United States Constitution—the ability of individual states to hand out individualized, targeted grants and breaks to corporations to induce them to move from one

state to another or to keep them from moving to a different state—would be curtailed. Such a solution should in no way, however, limit states from fashioning overall policies designed to attract business or keep established businesses happy. If a state wants to eliminate corporate taxes or individual income taxes as a means of encouraging a favorable business climate, then that is not only acceptable but encouraged. At least such a policy would be uniformly and fairly applied to all businesses, large and small, new or established. Likewise, if Congress perceives a need to enact incentives legislation to keep companies and jobs in America rather than having them go overseas, that too is fine. It also would apply across the board, not on a company by company basis, contingent upon which company has the most political influence and leverage to extract these breaks.

To accomplish such practical economic development reform will require leadership and political courage. Opponents of reform cry “jobs, jobs, jobs”, and beg for more government handouts. Politicians cower at the prospects of opposing “economic development”, but the current system is, as it has often been called, “a race to the bottom”. Help us, Mr. President, get out from under this unfair and unproductive system of using targeted incentives to rob our neighbors. This is change that we truly need.