On the Dole, Corporate Style

By David Cay Johnston

David Cay Johnston is a former tax reporter for *The New York Times* and teaches at Syracuse University Law School. He is also the author of two books about taxes, *Free Lunch* and *Perfectly Legal*.

Johnston examines a new book by political scientist Kenneth P. Thomas and other subsidy documents, arguing that subsidies to companies are growing, adding to tax burdens while damaging the economy.

Imagine that Congress or your state legislature passed a law tomorrow saying everybody except you got a tax break because the politicians in both parties disliked your business.

Even if the loser were Julian Assange's WikiLeaks, that law would be struck down by the courts on any number of grounds, including violating the Constitution's equal protection clause and perhaps the third clause under Article I, section 9, which prohibits bills of attainder.

But what about the opposite case? What if the government passed a law requiring every business to pay a tax except your competitor's business?

That kind of government meddling in the market goes on every day in America. Now, thanks to a book being published by Palgrave Macmillan titled *Investment Incentives and the Global Competition for Capital*, we have some idea of how much these giveaways to businesses cost and the harm they are doing.

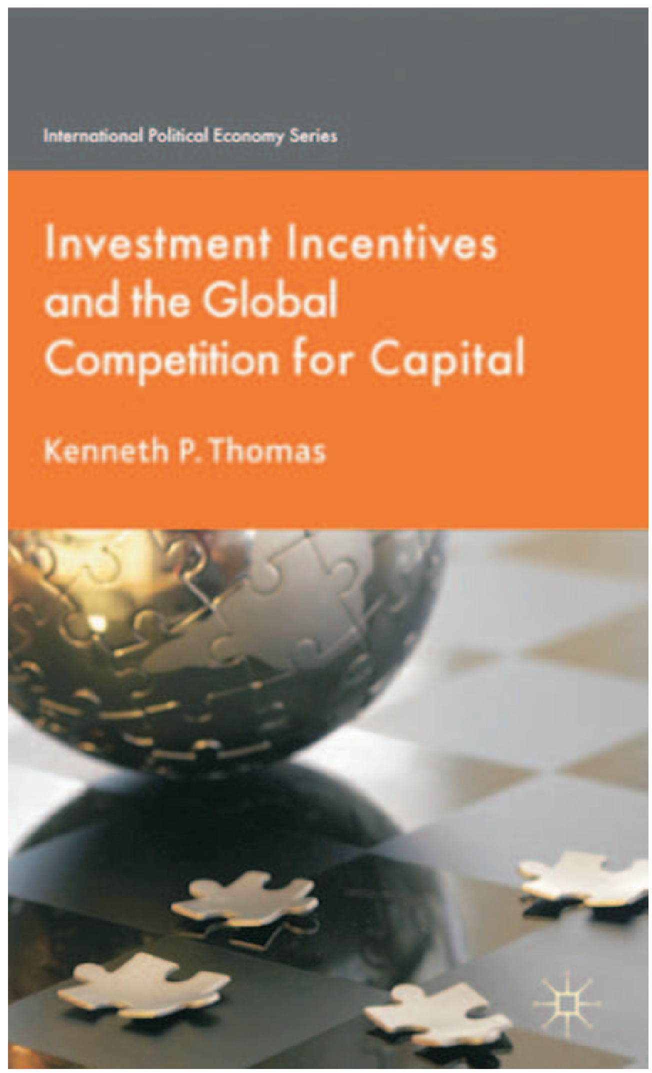
In 200 packed pages, Prof. Kenneth P. Thomas, a political scientist at the University of Missouri-St. Louis, documents how tax giveaways to big business are growing around the globe, although the Europeans and Canadians seem to be doing a much better job than Americans at controlling the costs of these deals.

''Estimating aggregate state and local subsidies in America is a difficult proposition because of the lack of transparency at all subnational levels of government,'' Thomas writes.

Thomas estimates American state and local government giveaways to business have grown to $70 billion per year. I am confident that his estimate is on the low side, for reasons that will become apparent.

While competition to give money to companies is a worldwide problem, the problem is much worse in the United States, Thomas shows. He estimates that American state and local subsidies to relocate existing businesses are six times the location subsidies in the 15 original EU members.

Canada has had some success in stopping one of the most pernicious problems in American subsidies, namely competition between the provinces to give away the most money to attract investment. But in America, the National Governors Association opposes federal legislation to limit or end the bidding wars, whose only sure winners are the corporations that scoop up tax dollars.



Prof. Kenneth P. Thomas

Many states require no reporting on local tax abatements, Thomas noted. Others do not verify figures independently. Some data — especially discounts on electricity, water, and sewer services — are often obscured or hidden by the authorities on the grounds that they would disclose proprietary information about the beneficiaries of corporate welfare.

Thomas reported that 17 projects in America received $100 million or more in subsidies since 2002, compared with only eight projects in the EU. But what matters most is not how much money is spent, but where it is spent, Thomas wrote.

"Many of the U.S. incentives were given in prosperous jurisdictions," Thomas wrote, while all eight EU projects were in poorer areas, primarily eastern Germany plus Romania and the Czech Republic. "It seems fair to conclude that investment incentives are under better control" in the EU than the United States, he wrote.

Any thought that giveaways of tax dollars stimulate foreign investment in America is demolished by a little table on page 101 of Thomas's book. It shows that between 1985 and 2007, the American share of global direct investment fell by two-thirds, from 36.7 to 12.7 percent. However, in the 15 more-developed EU countries where subsidies were few, the share of foreign direct investment increased from 28.6 to 40.3 percent.

But what takes the breath away is the increasing size of the welfare given big businesses as governments compete to shower gifts on companies with capital to invest, even when it means hardly any new jobs.

Back in 1967 I got onto the front page of my local weekly with my first exposé, which dealt with tens of thousands of dollars going to a building contractor that had bid low and charged high for a new county courthouse. Thomas showed that today's state and local welfare for businesses requires mechanized shovels to scoop up the cash, compared with spoons for the giveaway I wrote about 44 years ago.

Many investment incentives cover 30 to 45 percent of a factory's cost, Thomas showed. He said that the biggest recent American incentive had a net present cost of $734.3 million. That paid a fifth of the cost of a ThyssenKrupp steel mill that opened this year near Mobile, Ala. It turns out stainless and high carbon steel.

"The site selection was a classic location tournament," Thomas wrote. Cushman & Wakefield Global Consulting visit 33 of 67 possible sites and then induced Alabama and Louisiana, two of the poorest states in America, into a bidding war to see which would give the most to the European company.

The winner, Alabama, will eventually get about 2,700 jobs at an average cost to taxpayers of $271,963. That's more than those workers will earn in five years, so the deal may never produce a payoff for Alabama taxpayers, and even if it does, the cost will be very high.

$3.1 Million Subsidy Per Job

One of the biggest new drains of tax money is government giveaways for server farms, those giant air-conditioned complexes that store data for Google, Microsoft, Yahoo, Dell, and other digital enterprises. Companies need duplicate sites around the country to manage traffic flow and protect against flood, fire, the loss of electric power, or some other catastrophe.

This fall Yahoo made a deal in Lockport, N.Y., for a new server farm. Yahoo gets $200 million in state and local tax breaks (including no property taxes), plus $58 million of cut-rate electricity from Niagara Falls and a $10 million stimulus grant. That's $268 million to create 125 jobs, or $2.1 million per job.

Even if we just count the federal stimulus money, the subsidy works out to $80,000 per job.

Even richer was a deal Verizon made this fall for a server farm in Somerset, another Niagara County town. Over 15 years Verizon is getting $614 million in tax breaks and cut-rate electricity, which works out to an eye-popping $3.1 million for each of the 200 estimated jobs.

Server farms are an especially pernicious area of tax giveaways for several reasons. First, those job estimates are misleading. Server farms need very few workers. Oh, there's some programming work, but it can be done as far off-site as India. However, there will be jobs for air conditioning mechanics and security guards who must be on site to keep intruders and summer air at bay.

A few technicians also will be needed to keep the servers running. But the $882 million in subsidies for the two western New York server farms may buy no more than a few dozen of these jobs, which pay merely better than average wages.

There are few to no manufacturing jobs from servers, either. Servers, routers, and other digital gear are almost all made in China and other low-wage locations offshore. So New Yorkers are being taxed to create jobs in faraway Guangzhou.

The fact that so many of these vital communications components come from China has not escaped notice at the Pentagon, which worries that Beijing may have hidden features placed in some of the gear so that it can spy on us and, in the event of war, disrupt American communications. These are not idle concerns, as the top Chinese military theoretician has written that war with America is inevitable. That our tax dollars may help finance the Chinese military to spy on us is outrageous.

But at least we know the cost per job for the Verizon and Yahoo deals in New York, thanks in good part to the intrepid James Heaney of *The Buffalo News*, who has been doggedly pursuing these deals for several years.

Heaney got officials to talk about what jobs at the server farms would pay — "upward of $85,000."

Even if all 325 jobs paid that much, which they won't, it would take 32 years for the gross payroll to equal the subsidies. At half that pay, the gross-payroll-to-subsidy ratio runs 64 years.

Getting taxpayers to make giveaway deals like these might explain the extraordinarily outsized pay of Verizon CEO Ivan Seidenberg even as shareholders have been on a long, mostly downhill ride for more than a decade.

Forrest Gump's Insight

That deals with such lousy math get approved is not surprising after meeting some of the political hacks who wine and dine on the taxpayer tab while arranging to give away tax dollars. I asked one of these "economic development" officials for her due diligence file on a proposed $300 million deal in western New York and was given a thin report with obviously made-up numbers showing 14-fold growth in revenues if the subsidy went through. The report stated on its face that it was written for the developer, so I told the chief economic development official that I wanted the county's own report. The official looked at me, mystified, and said, "The file you have *is* the due diligence file."

As Forrest Gump said, "Stupid is as stupid does."

Then there are the North Carolina subsidy deals for Dell and Google, whose motto is "Don't be evil." Tar Heel state officials will not say what the total cost is, nor will the companies. They claim that letting loose the electricity discount figures would involve proprietary secrets.

Oh, please. Anyone in the server farm business can just look at the dimensions of the building and come up with a rough calculation of how much power it will use. Are North Carolinians dumber than Forrest Gump, or will they demand a full accounting?

It is curious how the government collects and discloses finely detailed data on how much tax money goes to the disabled, the poor, and the elderly, and to educate the young, but when it comes to welfare for big business, it just cannot seem to find the resources to gather and analyze the costs.

Strange, too, that many of these obscured, but gigantic gifts come through the good offices of politicians who pose as champions of the taxpayer and enemies of welfare, or at least of welfare for those who actually need it.

You can get some idea of these gifts of tax dollars to corporations by using the Subsidy Tracker developed by Phil Mattera, the chief researcher at Good Jobs First. At http://www.goodjobsfirst.org/subsidy-tracker, you can look for giveaways by company name, location, the name of the agency making the grant, and the year.

While Thomas concludes that it will be tremendously difficult to stop the bidding wars to give more and more money to companies to locate a facility here instead of there, taxpayers have had a few successes in stopping the bleeding of tax dollars.

Greg LeRoy, executive director of Good Jobs First, noted that Iowa suspended its film tax credit, Michigan trimmed a similar credit, and others are at least looking at dialing back the spigot.

Virginia stopped giving big retailers like Wal-Mart and Target a nice slice of the sales taxes they collected by eliminating discounts for firms big enough to file electronically after a Good Jobs First report exposed the cost of this subsidy. (Imagine if you had the clout to get a law passed that pays you for filling out your personal tax return.) Small merchants that file on paper still get to keep a sliver of the sales tax dollars they collect, but at least it's a thinner sliver.

These small victories pale beside efforts to ramp up subsidies using gigantic gifts of taxpayer money, which is also a problem in Europe. While Thomas characterizes the EU rules on these giveaways as more thoughtful, focused, and fair than the free-for-all in America, he also shows glaring holes in European policy.

Thomas tells how Dell moved a factory from Ireland to Poland in 2009 and then months later closed a four-year-old factory built in large part with North Carolina tax dollars. The Irish taxpayers gave €53.5 million to Dell, while North Carolina gave as much as $242 million. But when the Poles offered €54 million more, it was enough to get Dell to move about 1,900 jobs to Lodz.

That any of this corporate welfare is handed out in America is amazing, given that many states have prohibitions against gifts of taxpayer money to corporations. Many of these provisions were adopted because of scandals over tax dollars being given to corporations during the Gilded Age.

The North Carolina Institute for Constitutional Law is pursuing lawsuits alleging that Dell's and Google's tax breaks violate numerous provisions of the state constitution. The Google case concerns a statute that was drafted by Google lawyers for the company's benefit. The plaintiffs say that is unfair to everyone else, a kind of official favoritism. The lawyer pressing the cases is Robert Orr, who as a North Carolina Supreme Court justice in 1996 wrote the dissent in a case that upheld taxpayer gifts to corporations.

New York's Constitution has a ban on gifts of tax dollars to corporations that is simple, straightforward, and utterly ignored.

James Ostrowski, a Buffalo lawyer with a libertarian streak, has taken on some of the Buffalo-area corporate giveaways. The courts have not been welcoming, dismissing his cases. But on appeal of one case, only one of four initial defenses for the giveaways remains — the claim that the government is not giving away tax dollars, but rather entering into a contract to provide jobs in return for tax dollars.

That defense is laughable, but it may just be enough to keep alive the flow of dollars from the pockets of everyone into the coffers of big corporations. If Ostrowski loses, then at least in the Empire State, the socialist redistribution from the many to the few will likely accelerate, and that Verizon deal at $3.1 million per job may in a few years look as relatively small-time as the deal I exposed back in 1967.

Your thoughts? E-mail me at JohnstonsTake@tax.org.