Can Trump's Wild One-Off at Carrier Combat Corporate Welfare?

GREG LEROY DECEMBER 7, 2016

Donald Trump's controversial deal with Carrier Corp. has ushered in a long-overdue debate over corporate giveaways that come at taxpayers' expense.

AP Photo/Evan Vucci

Workers watch as President-elect Donald Trump and Vice President-elect Mike Pence visit the Carrier factory, Thursday, December 1, 2016, in Indianapolis, Indiana.

ay what you will about his hot-mess way with issues, but President-elect Donald Trump has already raised the cause of manufacturing jobs higher than any president in memory. His maneuver with United Technologies that convinced Carrier Corp. to keep 800 jobs in Indiana has drawn both praise and scorn. But by casually endorsing interstate job wars, S

Trump has also invited a sorely needed debate over a truly egregious aspect of corporate welfare.

The Indianapolis deal is clearly a one-off with no policy precedents to benefit any other workers. But it has cued up an issue that progressive advocates can embrace and that should force Trump supporters to grapple with tough questions. Specifically: Trump's America First populism could be channeled to make real progress toward curbing wasteful taxpayer giveaways to footloose corporations.

Unbeknownst to Trump, this debate is about to get super-charged: Over the next 18 months, a torrent of newly-mandated data about the costs of corporate welfare will flow from cities, counties, school districts, and state capitals everywhere. Thanks to an obscure new government-accounting rule that is just now kicking in, tens of billions of dollars in lost revenue will be revealed to taxpayers for the first time.

Dithering about "Job Blackmail"

Many academics and pundits have claimed that Trump's stunt at Carrier will prompt more companies to threaten to move to Mexico, as a way of shaking down states for "job blackmail."

It ain't so; here are the economics. Two critical numbers: **two and 98**. For the typical company in the United States, all state and local taxes *combined* equal 2 percent of their cost structure. Business basics make up the other 98 percent: labor, occupancy, raw materials and components, energy, logistics, executive pay, etc. (The mix of these business basics costs varies greatly by industry and by facility function.)

That means tiny changes in any of those big cost factors will dwarf anything public officials can do with tax breaks. If a company is able to relocate to a low-wage country, and its production has appreciable labor content, the savings it can achieve will normally dwarf anything a state or local government could offer in tax breaks. (That's why the $700,000 per year Indiana gave Carrier can't be the reason United Technologies reconsidered a move it said would save it $65 million per year.)

But stateside, large companies *can* **extort huge tax breaks** by threatening to leave their current locations—even if they have no intention of leaving. Indeed, job blackmail is a longstanding, deeply entrenched practice in American economic development, a raw measure of corporate domination in this space.

And if an interstate move is initiated instead by a state that actively recruits companies, the practice is known as "job piracy." Often traced to Mississippi's invention of what some consider the first corporate welfare program in the 1930s, it has plagued our country's economic development for decades, helping runaway shops evade unions and depress wages, fueling inequality, and undermining the tax base needed for public goods and services that benefit all working families and all employers.

This "second war between the states" (as *Business Week* dubbed it in 1976) has never been addressed by the federal government, was last debated by the National Governors Association in 1993, and was the subject of an inconclusive Supreme Court case in 2006 (*DaimlerChrysler v. Cuno*).

Left so unchecked, interstate job piracy reached an ugly nadir in 2013 when then-Texas Governor Rick Perry turned it into **a partisan sport**. Using a mix of taxpayer and private money for television and radio ads featuring himself ahead of his arrivals, Perry visited six states, all with Democratic governors, who of course felt compelled to push back. Perry landed no jobs but oodles of earned media ahead of his ill-fated second presidential bid.

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The Core Problem is Interstate Job Fraud

Job blackmail and job piracy are only possible because of what we call **"interstate job fraud."** That's what happens when a state receives existing jobs and declares them "new" for the purpose of qualifying a company for eight- or even nine-figure subsidy packages. If states were to quit lying about existing jobs being "new," they'd have no bait for piracy, and companies would lose their leverage to extort their hometowns.

This fraud reaches its most absurd dimension in metro areas that straddle state lines. So in Charlotte, Kansas City, Memphis, New York, and other multi-state metro areas, companies can—and often do—move very short distances, changing people's commuting patterns while creating no new jobs, enabling them to get showered with massive tax breaks, grants, and other subsidies. An unknown share of the $70 billion-plus spent annually by states and cities for economic development is devoted to such deals.

After 9/11, for example, Goldman Sachs relocated some of its Lower Manhattan back office operations across the Hudson River to Jersey City, New Jersey. There, they were treated for incentive purposes as "new jobs" (even if they'd been held all along by New Jersey residents) and the investment bank was awarded a massive share of its employees' state personal income taxes—revenue that would otherwise have gone to Trenton.

Memphis, facing job piracy by adjoining DeSoto County, Mississippi, loses one in seven of its property tax dollars by giving huge retention abatements to companies like FedEx and International Paper.

Business groups are getting fed up, and some are acting. **Since early 2011**, a group of 17 Kansas City-area business leaders led by the Hall Family of Hallmark Cards, Inc., has been publicly and privately urging Missouri and Kansas to quit this wasteful practice that has now cost taxpayers more than $300 million. In July 2014, they prevailed upon Missouri's Republican-led legislature and Democratic governor to put **a legally binding offer** on the table to Kansas. If the Sunflower State would legally reciprocate, the offer stated, Missouri would agree to carve out the Kansas City metro area and disqualify interstate job fraud deals.

Tragically, Kansas Governor Sam Brownback missed his chance to make U.S. history: He let the deal expire last summer, and soon renewed his piracy efforts, even direct-mailing a Business Improvement District in Kansas City, Missouri.

Logically Extending Trump's Nationalist Rhetoric

In his rambling speech at Carrier, Trump appeared to endorse this ruinous economic war among the states, saying:

> *And they can leave from state to state and they can negotiate good deals with the different states and all of that. But leaving the country is going to be very, very difficult.*

Under federalism, Uncle Sam has practiced laissez-faire on interstate competition for jobs, but we've never had a president who endorsed companies whipsawing states against one other. But then, I doubt Trump will remember what he said.

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By contrast, we do know that Trump's tough talk on jobs is deeply soaked in his nationalist rhetoric: denouncing trade agreements, criticizing China, threatening to punish companies with tariffs for offshoring. So why shouldn't he turn that framework inward, to rally Team America? What if Trump said instead:

> *How crazy is it that we allow companies to get paid for dislocating workers and playing states against each other? Some companies might need to move occasionally, but we're not going to pay them to do that. Not anymore. We need all of us working together, pulling in the same direction to make America competitive again. This is about America in the global economy.*
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> *All of our states and all of our governors are in this fight together for good American jobs. We can't let states keep wasting taxpayer dollars stealing jobs from each other, right? We're all on the same team! Our fellow states are not the enemy!*
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> *That's why today I have directed HUD Secretary Ben Carson to withhold 10 percent of Community Development Block Grant dollars from any governor or any mayor who will not sign our Make America Cooperate Again p edge says: We will not actively recruit companies from other jurisdiction not fraudulently call existing jobs "new jobs" and award them corporat*
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> *This is the like the way the Transportation Department got the states to raise their legal drinking ages to 21. That cut way down on traffic accidents and saved thousands and thousands of lives.*
>
> *And you know the beauty of this, folks? It won't co dime. In fact, it's going to save us billions, and we're going to use th ht here in America for infrastructure and helping our small businesses a ur inner cities.*

Here Comes GASB Statement No. 77 Corporate Welfare Data!

Amping up this debate over the next 18 months—amid a sea change that Donald Trump cannot stop or slow—there is a little-known but very significant shift in how state and local governments keep their books.

Under Governmental Accounting Standards Board **(GA[illegible]t No. 77**, more than 50,000 state and local government bodies will soon hav[illegible]w much revenue they lose to economic development "tax abatements" (GASB's umbrella term for property, sales and income tax breaks granted for economic development).

The data will start trickling in this March, will flow strongly by June, and will reach fire-hose proportions by November and December of 2017. Tens of billions of dollars never revealed before will come to light. Even school districts that lose revenue passively when cities and counties grant giveaways will have to report their share of the losses.

Of course, the pain caused by those abatements will be all the more controversial as schools and localities struggle with Trump-approved federal cuts to education, housing, health care—and yes, even to economic development.

An America First-framed takedown of corporate welfare? This could be yuge.

that could get a lot worse in the age of Trump

Beyond Carrier: Can Congress End the Green Light for Outsourcing?

STEVEN GREENHOUSE

Donald Trump's unusual deal with Carrier Corp. to keep 800 jobs in the U.S. alarmed many economists, but it points to the need for a corporate norm that doesn't tilt toward outsourcing.

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