

# What the Country Needs Now, Mr. President

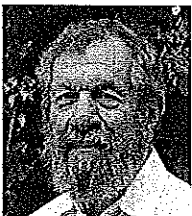
Four experts offer advice to the incoming administration. ★★★★★



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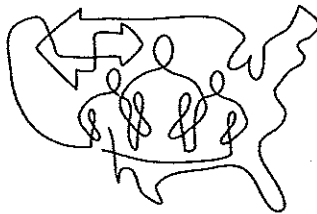
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## Save the States from Their Costly War for Jobs

By Greg LeRoy

JOB CREATION AND PUBLIC BUDGETS are voters' top concerns, yet we are waging a 50-state economic war that is wasting billions of taxpayer dollars and failing to create more U.S. jobs. The situation begs for federal leadership.

I'm referring to the devolved federalism that allows one state to pirate existing jobs from another state (or eagerly receive them), label them "new jobs," and shower footloose companies with tens of millions of dollars in tax credits, tax exemptions, and other "economic development incentives." Some states cover their backsides by technically calling such jobs "new to the state," but because many such deals involve companies staying in the same labor markets, often the jobs remain held by the same workers who still reside in the old state—or were already living in the new state.

Though hardly a new problem, this ruinous "economic war among the states" has gone on steroids since the Great Recession. The number of deals for which states are competing is still depressed, and high unemployment makes governors ever more anxious to appear aggressive on job creation.

The result is a surge in wasteful spending that desperately needs federal help. Using past precedents, Uncle Sam can cool this war. But first, consider how bad things have gotten:

- Ohio gave Omnicare (a pharmacy services provider) \$40 million to relocate its headquarters one mile from Covington, Kentucky, to Cincinnati.
- Kansas and Missouri have repeatedly pirated jobs from each other in the Kansas City metro area. Most recently, Missouri gave Freightquote, a shipping broker, \$61 million in subsidies—for 1,225 "new" jobs. Last year, 17 prominent business executives publicly urged Governors Nixon and Brownback to stop raiding each other.
- NCR's 1,250 headquarters jobs had resided in Dayton, Ohio, for 125 years—until 2009, when the technology company moved to a suburb of Atlanta. Georgia also welcomed NCR jobs from South Carolina with a package reportedly totaling \$109 million.

The mere threat of crossing a state line has made "job blackmail" more lucrative than ever. Sears Holding Corporation threatened to leave Illinois (where its predecessor Sears Roebuck & Co. had been based since 1893) and claimed to have bids from a third of the states (including a \$400 million offer from Ohio). Illinois paid off with a package that could cost \$275 million.

This is worse than a zero-sum game. This is a net-loss game, in which no net new jobs are created, but loyal companies are getting stuck with higher taxes to pay massive subsidies to the footloose.

It's also a spectacular waste of money at a time when the states should be partnering with Washington to address real jobs issues: rebuilding our sagging infrastructure, modernizing our manufacturing base, retooling our workforce skills, and insulating our economy with green energy solutions.

If you fail to exercise leadership, federal dollars will get wasted, too. That's because monies from the departments of Commerce, Labor, and Housing and Urban Development all flow into state budgets that are being drained by war-among-states deals.

### Use federal muscle

So here is my specific advice: Use the power of the federal purse to encourage states to stop the two most outrageous job-piracy practices. Recall when 10 percent of federal highway money was held back until states raised their legal drinking ages to 21, a reform that has saved thousands of lives. In the same way, federal economic development dollars from the Department of Commerce could be held back from states until they do two things:

First, no more fraudulent labeling of existing jobs as "new" just because they are moved across a state line (and no more wink-and-nod "new to the state" loopholes). Require states to revise their incentive codes to acknowledge existing jobs. If a company still wants to move, any truly new jobs would still be eligible for subsidies. But taxpayers would no longer be paying for dishonestly mislabeled "new" jobs.

Second, no more poaching from other states. No more direct mail, billboards, conferences, or fairs designed to make companies footloose.

If the new administration used its powers to end these wasteful practices, states would gain precious funding to help more small businesses, invest in more innovation, train more workers, rebuild more infrastructure, modernize more manufacturers—and create more jobs and strengthen their economies.

To better compete in the global economy, states need to stop treating each other as enemies. Will you exercise leadership here, Mr. President? ■