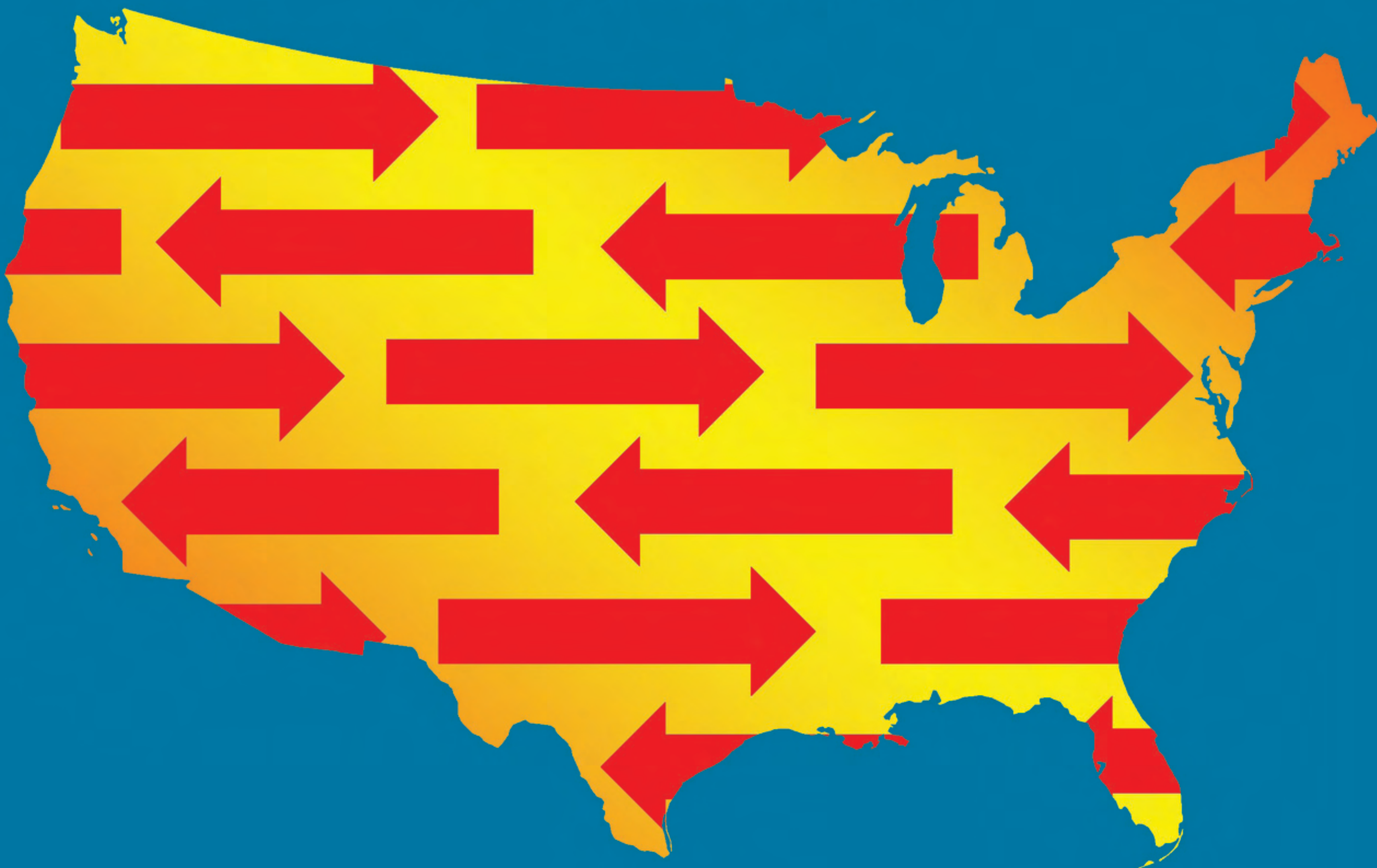
The Job-Creation Shell Game

Ending the Wasteful Practice of Subsidizing Companies that Move Jobs from One State to Another



GOOD JOBS FIRST

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The Job Creation Shell Game:

Ending the Wasteful Practice of Subsidizing Companies that Move Jobs From One State to Another

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Table of Contents

Executive Summary

With many states still grappling with high unemployment and depressed tax revenues, some have reverted to an economic development shell game: paying companies to jump state lines.[1] This beggar-thy-neighbor process, long ago dubbed the "Second War Between the States" is, unfortunately, raging again in many parts of the country.

What states euphemistically call "business recruitment" is often nothing more than the pirating of jobs by one state from another. This piracy is bankrolled by property, sales and income tax breaks, land and infrastructure subsidies, low-interest loans, "deal-closing" grants, and other subsidies to footloose companies. For trophies such as corporate headquarters, some states even offer per-job cash grants to finance executive relocations.

The dark flip side of subsidized job piracy is "job blackmail," politely called "retention incentives." With subsidies readily available to any company that creates the appearance of moving, states are more eager to pay companies to stay.

Why is this happening more in recent years? The Great Recession is a factor, of course. However, long-term data indicate that the number of major projects for which states can compete began declining sharply in the early 2000's and has yet to recover to even half its peak.

Combine depressed deal supply with increased demand (i.e., more public officials anxious to appear aggressive on jobs) and the price goes up: billions of dollars of badly needed taxpayer funds intended for job creation are instead underwriting what amounts to job redistribution.

Worse than zero-sum, this is a net loss game, with footloose companies shrinking the tax base necessary for the education and infrastructure investments that benefit all employers.[2]

At the core of this shell game is what we call interstate job fraud. Public officials congratulate themselves for bringing "new jobs" to the state, even if all of the jobs already exist. This happens both for long-distance moves and when the relocation takes place within a multi-state metro area—like Charlotte, Memphis, New York or Kansas City—where many of the jobs are probably already held by residents of the new subsidizing state, or will remain held by residents of the old state.

This interstate shell game is both wasteful and incredibly unfair to existing in-state employers, whose expansions and start-ups account for virtually all of the job-creation action. The costs are very high: we catalog numerous examples of eight- and nine-figure subsidy packages in just a sampling of the states. Yet the benefits are extremely low: analyses from several states by researchers of diverse orientations, using a remarkably detailed business census called NETS, consistently conclude that interstate job relocations have microscopic effects on state economies—positive or negative.

After examining the big picture in our introduction and then reviewing the history of economic competition among the states, we examine current hot spots. Highlights include:

- In the Kansas City metro area, companies have been getting eight-figure subsidy packages to move from the Missouri side to Kansas, or vice versa. A group of prominent business leaders spoke out publicly against the wasteful process, but still it continues.

- In Texas, the administration of Gov. Rick Perry uses the "deal-closing" Texas Enterprise Fund as well as a privately financed marketing group called TexasOne to brazenly lure companies from many states, including California.

- New Jersey has doubled down on both job piracy and job blackmail payoffs, continuing to lure firms from New York City (many of them Wall Street firms that were likely to come anyway) and assembling two nine-figure retention packages for companies moving short distances intrastate.

- Georgia, which we rename the Poach State, stunned officials in Ohio when it successfully lured the headquarters of NCR from Dayton, where the company originally named National Cash Register had been for 125 years. It was one of dozens lured from the Buckeye State and others.

- Tennessee embodies all the policy contradictions. Its largest city, Memphis, is frequently the victim of poaching by bordering Mississippi. Indeed, the state is ringed with multi-state metro areas. Yet state officials say job piracy is their co-top economic development priority. Tennessee even created a whole new subsidy program to lure the North American headquarters of Nissan from southern California.

- The booming Charlotte region has job growth most states would die for. Yet instead of managing their growth, the 16 counties in North Carolina and South Carolina routinely lure jobs from each other, using both state and local subsidies. Private-sector interests—site location, tax and real estate firms—are driving the process even as public officials have grown more passive.

- Rhode Island has long pirated jobs from Massachusetts, but when it gave a very large package to lure video game maker 38 Studios, founded by retired Boston Red Sox star Curt Schilling, the deal soon blew up and criminal prosecutions are now under way.

- Huge job blackmail subsidies have left many taxpayers bitter in states such as Illinois and Ohio, and Sears Holding Corp. has continued to shed jobs despite getting a second nine-figure retention deal from Illinois. Ohio Gov. John Kasich—after bidding for Sears and arranging three very large retention deals—recently made a statement suggesting he is having second thoughts about bidding wars.

To cool these job wars, we recommend that states demonetize interstate job fraud. That is, the states need to stop subsidizing companies for existing jobs that are regarded as "new" simply because their location has changed.

It turns out that the vast majority of states already know how to do this: *four-fifths of the states already refuse to pay for intrastate job relocations*. For at least one and sometimes most of their major incentive programs, 40 states disallow subsidies for existing jobs that are merely being moved within their own borders. While adopting a common-sense approach concerning intrastate relocations, most of these same states abandon all rigor when it comes to jobs shifted from across their borders, even within the same labor market.

We also recommend that states end their business recruitment activities that are explicitly designed to pirate existing jobs from other states: no more direct solicitations, targeted relocation offers, billboards, ad campaigns, websites or other efforts specifically designed to poach jobs.

To give the states an incentive to take these steps, we describe a possible role for Uncle Sam: to set aside a small portion of one federal program's aid to states as a "carrot" states would receive upon amending their incentive codes to make existing jobs ineligible for subsidies, and certifying no more raiding.

Introduction:
Why Interstate Job Piracy is Wasteful and Unfair

As states grapple with how best to recover from the Great Recession, some have turned again to a shell game.

They have turned to what we call here "interstate job fraud." That is, they actively try to lure existing jobs from other states, re-label them "new" (or perhaps technically "new to the state") and shower footloose companies with eight- and nine-figure subsidy packages.

There are three problems with this strategy. It is wasteful because the costs are high and the benefits are low: a tiny number of companies get huge subsidies but the net impact of interstate job relocations is microscopic. It is incredibly unfair to in-state employers, who are forced to pay higher taxes or suffer lower-quality public services (or some of both) when newly arriving companies are excused from paying their fair share of taxes. And some would add that it is a tragic distraction from things that matter more to the U.S. economy, including the trade deficit.

The threat of these job-piracy packages is also causing some states to be especially pliant in paying "job blackmail" when companies threaten to relocate. To be sure, sometimes companies are the moving party, so to speak, but they have no trouble finding states eager to assemble large subsidy packages that include calling existing jobs "new."

The net effect of these piracy lures and blackmail payoffs is to divert economic development resources away from helping companies expand or start up, where virtually all the job-growth action is. And when many states are still making painful budget cuts, putting lots of eggs in a few corporate baskets reduces funding available for the low-risk, high-payoff investments in education and infrastructure that benefit all employers.

A tiny share of companies move in any given year, and the vast majority that do, move only short distances, staying in the same labor market in the same state. But in some metro areas like those we cover here—Memphis, Charlotte, Kansas City, and New York—the presence of a state line can make it fantastically lucrative for a company to move a short distance and qualify for "new job" subsidies. This is true even if most of the company's employees continue to reside and pay taxes in the state where the workplace used to be located—or if many of the employees already lived in the state paying the subsidies.

In this chapter and throughout the case studies that follow, we illustrate these arguments.

In our Policy Conclusion, we suggest one very simple way to cool things off: no more fraudulent relabeling of existing jobs as "new." To do that is not to "unilaterally disarm," or roll up the Welcome mat. Companies that wish to relocate and grow truly new jobs can be treated the same as expanding employers already in-state. To quit committing interstate job fraud is to be honest, cost-effective and loyal to your existing employer base—the companies that will always drive your economic future.

The 50 States Are Chasing Fewer Deals

Why are states stooping to such dubious behavior? A supply and demand analysis suggests more anxious politicians chasing a shrunken number of deals.

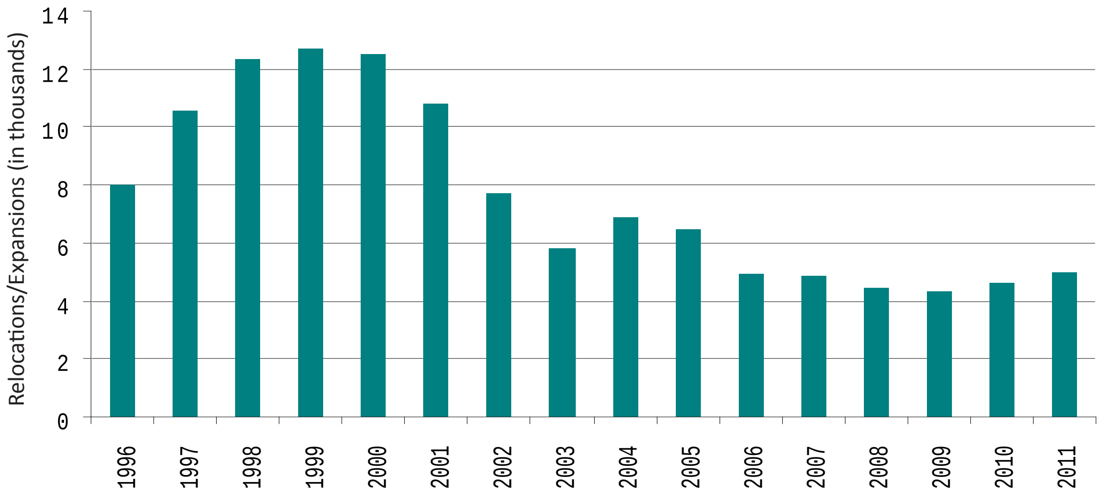
As the U.S. economy recovers slowly from the Great Recession of 2007-2009, most states are suffering persistently high unemployment rates. This causes public officials to be more aggressive than usual in promoting job creation, creating pressure to spend more on attraction deals, and making officials more sensitive to relocation threats.

Consistent with high unemployment, there are fewer economic development projects. Indeed, the number of deals for which states are competing has reportedly declined substantially in the last decade. For example, Atlanta-based Conway Data, Inc. publishes *Site Selection* magazine; the firm is 59 years old. It maintains a 50-state database of business investments in new facilities and expansions (surveying state and local economic development organizations, news reports and other sources). Each March, for the magazine's "Governors' Cup Award," it compiles and publishes the data for each state.

As the chart below shows, the total national number of projects peaked in 1999 and fell sharply well beyond the 2001 recession.[3]

Even in the non-recessionary years of 2003-2006, the number of major new projects averaged barely half the rate of the 1998-2000 peak. From that already low base, the number of projects dipped in 2008-2009 and then recovered only modestly in 2010 and 2011. In other words, states have been competing for a shrunken number of economic development projects for many years, with 2011 deals still 61 percent off the 1999 peak. (And these numbers are probably rosy because of technical aspects of Conway Data's methodology.[4])

New U.S. Facilities & Expansions, 1996 - 2011 as Tracked by Conway Data, Inc.[5]



Eight- and Nine-Figure Packages for the Favored Few

Charted on the following page are the largest subsidy packages we cite in this report: either paid to companies for relocating or paid to companies for not moving after threatening to leave. (This is not a 50-state compilation, nor even a complete list of interstate subsidy deals from our spotlighted states. For a 50-state set of selected profiles of costly deals of all kinds, go to: http://www.goodjobsfirst.org/deal-profile-index.)

These are enormous expenditures being made by states at a time when most are making painful budget decisions: cutting funds for schools, community colleges and universities as well as infrastructure, public health, mass transit and public safety—investments that benefit all employers.

As we documented in our 2012 study, *Paying Taxes to the Boss*, some of these deals—especially in states such as New Jersey, Missouri, Kansas and Illinois—are partly paid for with *personal income taxes*. That is, workers' future payroll taxes—which would normally help justify corporate tax breaks—are instead being larded on, as corporate subsidies.

It is not possible to calculate what share of states' economic development budgets are being spent on interstate luring and job fraud. But we cite specific states (such as Texas Rhode Island, and Tennessee) that are clearly devoting substantial resources to it, and specific state programs (like New Jersey's Business Employment Incentive Program, the Texas Enterprise Fund, and Promoting Employment Across Kansas) where it is common knowledge that deals routinely involve interstate job fraud.

Largest Relocation Subsidies

Company	Year	Value	Origin	Destination
Sears Holding Corporation	2012	$275,000,000	Illinois	Retention
Prudential Insurance	2011	$250,000,000	New Jersey	Retention
Nissan	2005	$244,000,000	California	Tennessee
Sears Roebuck	1989	$168,000,000	Illinois	Retention
NCR	2009	$109,000,000	Ohio	Georgia
Panasonic North America	2011	$102,000,000	New Jersey	Retention
Motorola Mobility (Google)	2012	$100,000,000	Illinois	Retention
American Greetings	2011	$93,000,000	Ohio	Retention
Depository Trust & Clearing Corp	2009	$90,200,000	New York	New Jersey
Goya Foods	2012	$82,000,000	New Jersey	Retention
38 Studios	2009	$75,000,000	Massachusetts	Rhode Island
Marathon Petroleum	2011	$72,000,000	Ohio	Retention
Navistar	2010	$65,000,000	Illinois	Retention
Freightquote	2012	$64,300,000	Kansas	Missouri
Citigroup	2004	$57,000,000	New York	New Jersey
Boeing	2001	$56,000,000	Washington	Illinois
AMC Entertainment	2011	$47,000,000	Missouri	Kansas
Teva Neuroscience	2011	$40,700,000	Missouri	Kansas

NETS Data Reveal Microscopic Net Impacts

Despite those high company-specific costs, a remarkable data source reveals that the net effects of interstate job movements—positive or negative—are extremely small. (We would add: jobs pirated with subsidies are only a subset of all that relocate.)

Consider Texas, a big spender on recruitment from out of state. The National Establishment Time Series (NETS) database, an extremely detailed business census created by Walls & Associates and popularized by the Edward Lowe Foundation at YourEconomy.org, reveals that corporate relocations into and out of the Lone Star State have had a microscopic net impact on the state's economy.

For the first seven years of the Perry administration (2003 through 2009, for which the Lowe website has NETS data), Texas had a net gain of 28,375 relocated jobs (inbound jobs minus outbound). That is only 0.23 percent of the state's 12.2 million jobs at the start of that time period, for an average annual rate of just

0.03 percent jobs gained.[6] Even if the state's numbers have picked up a bit in the recovery, twice that rate would still be an extremely small impact.

Put another way, these results suggest Texas officials should spend 99.97 percent of their economic development time and money on everything besides chasing other states' jobs. That's a far cry from what our case study suggests is actually happening.

Studies using NETS data in other states—by groups of diverse orientations—also find microscopic impacts of interstate job movements over time. For example, the centrist Public Policy Institute of California, in an early study that carefully examined the quality of NETS data and called it "reliable," found that interstate relocations accounted for just 1.6 percent of job loss over a 10-year period *and* an offsetting 0.9 percent of job gains (with Texas the third-biggest exporter of jobs to California). The authors' top recommendation: "First... be wary of anecdotal evidence of businesses fleeing the state to support arguments that California has an economic climate hostile to business."[7]

The Empire Center for New York State Policy, a project of the free market-oriented Manhattan Institute for Policy Research, used NETS data to examine that state's economy between 1993 and 2008. It found that although New York State lost a net of 1.2 percent of its jobs (or less than 0.1 percent per year) to interstate relocations, the real problem was a relative shortfall in new-company start-ups. Jobs lost due to firm deaths exceeded jobs created from births by more than half a million. "...New York's job machine has stalled primarily due to a lack of establishment births—including start-ups by the self-employed," it found. (The Empire Center also found more than half of the net interstate job moves went to New Jersey and Connecticut. We infer it is likely that New York State residents continued to hold many of those jobs.)[8]

In Massachusetts, the free market-oriented Pioneer Institute likened interstate lures to "playing the lottery" in examining NETS data for 1990-2007. Although the Bay State has had a small net loss of jobs to interstate moves, it loses and gains jobs from mostly the same states (New Hampshire, New York, Rhode Island and Connecticut all rank in the top five for both directions). In addition to some cautionary findings about Massachusetts' trends, the Institute concluded: "The majority of establishments that moved to the state did not receive special incentives from the state to do so. Therefore, public thinking and public policy with respect to economic development should be reoriented to place less emphasis on interstate relocation."[9]

Finally, in Pennsylvania, Good Jobs First analyzed NETS data for high technology industries for the period 1990-2006.

Over 17 years, the state's net high-tech job loss was 2,850 jobs—or just 141 jobs per year—in a state of more than five million private-sector jobs. By contrast, the state gained 4,001 high-tech jobs per year thanks to expansions and start-ups. Ominously, between 2001 and 2006, the number of Pennsylvania high-tech jobs lost to offshoring (as officially certified for Trade Adjustment Assistance) exceeded interstate job loss by a ratio of 30 to 1.[10]

Despite these tiny interstate results, at least when a state like Texas recruits jobs from as far away as California, one can at least assume the state will gain the fiscal benefits of having more in-state residents and their families paying taxes, buying homes and otherwise creating positive economic ripple effects. But what about interstate job fraud within a given labor market? What about states like Missouri and Kansas that repeatedly pay companies to jump the state line bisecting the Kansas City metro area? Or New Jersey when it pays companies to leave Manhattan for Jersey City, just across the Hudson River? Or New Hampshire trolling in adjoining Boston suburbs? Or South Carolina suburbs of Charlotte recruiting from the North Carolina side?

When companies make such moves, it is reasonable to assume that many, perhaps most (depending on the particulars) of the affected families will not move across a state line as their work address did. They will simply have a new commuting route. That could occur either because they are attached to the old state or because they already reside in the new state. Either scenario means that the paying state will get a far smaller return on its investment, a smaller incremental gain in tax revenue and economic activity, than if it gained a new resident taxpayer.

This dynamic also affects the job-counting: when a worker already lives in the new state, NETS still records that *job* as new to the state (since it tracks business establishments, not people). That is, the perceived job-movement effect becomes exaggerated.[11]

In other words, by the very finest-grain data available, diverse scholars agree: interstate job moves have microscopic effects on state economies. And we observe that in some states, even those tiny workplace effects are surely overstated because more jobs move than do people who hold them.

A Greater Challenge to America's Jobs is the Trade Deficit

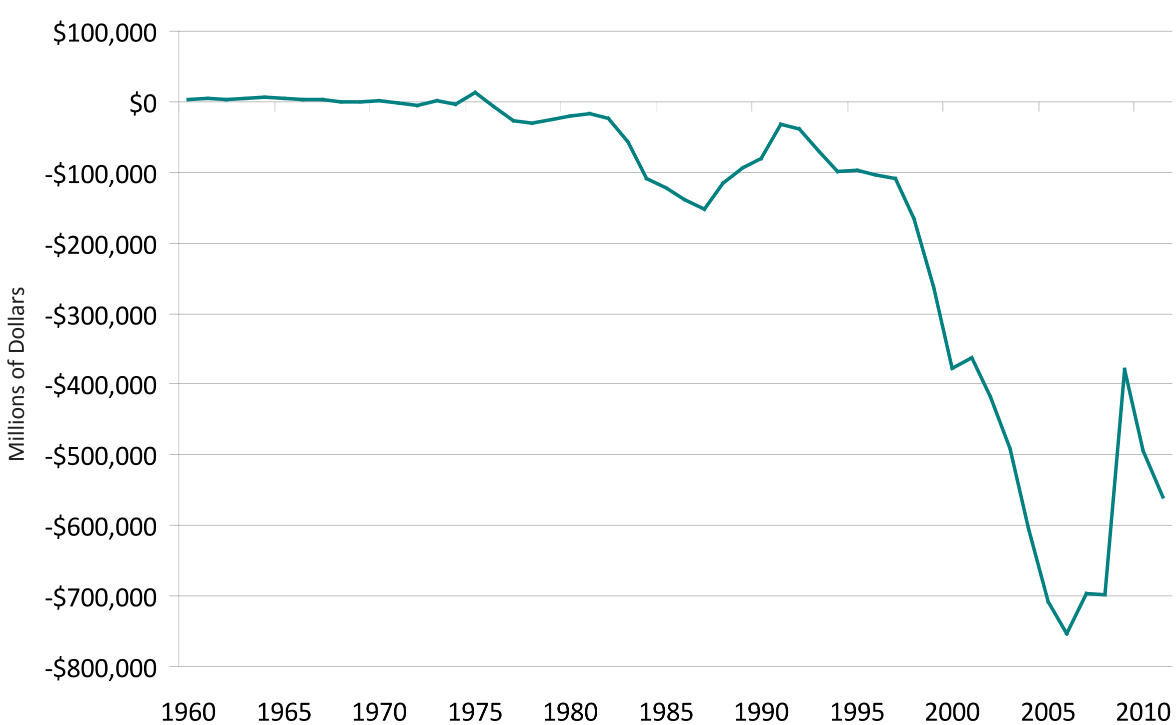
Kansas is not our enemy. Neither is Missouri. A much bigger jobs challenge to our nation is offshoring, foreign competition, and our resulting trade deficit.

Allowing states to treat each other like competing nations while actual nations run big trade surpluses with the United States makes the economic war among the states look like a distracting smokescreen. It's a tragic legacy of the devolved federalism that has kept Uncle Sam from stopping even the most outrageous excesses, like interstate job fraud.

Of course, trade is a federal issue that can only be solved in Washington. This study is not about trade, and Good Jobs First does not work on trade. But we are surprised by how often public officials invoke the possibility of offshore job flight to justify giving companies big tax breaks. They need to check their math: all state and local taxes combined come to only about one and a half percent of the average company's cost structure. Giving a company a discount on such a small cost factor can hardly compete with the cost savings some companies can obtain by offshoring. And the nascent "reshoring" movement of manufacturers bringing production back to the U.S. makes it clear that there are far larger forces at work than state and local taxes.

Perhaps the offshore job-flight justification works because people know trade is a real problem: per the accompanying chart, after slacking briefly in the Great

U.S. Trade Deficit[12]



Recession, the U.S. trade deficit grew back over half a trillion dollars per year.[13] Like the number of economic development projects tracked by Conway Data, the trade deficit worsened substantially in the 2000's. As a share of Gross Domestic Product, it has exceeded three percent in every year but one since 2000. From 2003 through 2008, it ranged from more than four to almost six percent of GDP.[14]

These ballooning deficits are costing millions of jobs, affecting every state, with no regard for region or corporate tax or incentive regimens. For example, a study of job loss due to the growing trade deficit with China names New Hampshire, California, Massachusetts, Oregon, North Carolina, Minnesota, Colorado and Texas among the 10 most affected states (proportionally, and in that order).[15] That should be a sobering fact for states such as New Hampshire (that so shamelessly pirates jobs from Massachusetts) and Texas (that openly lures companies from California and other states).

Instead of paying huge sums to tiny numbers of footloose companies, the states—including those who share commuters every morning—would be better off supporting fair trade reforms and then uniting to help all incumbent U. S. employers grow and better compete in the global economy.

Will economic historians 30 years from now look back on this period and conclude that fratricide among the states undermined their foundational investments in skills and infrastructure and diverted attention from a national consensus on fair trade that could have built a strong recovery?

Kansas is not our enemy.

History of Economic Competition Among the States

The recent *New York Times* series "United States of Subsidies" has brought increased attention to a long-standing problem: the misuse of economic development incentives, especially when they are employed by states and localities to lure existing jobs from one part of the country to another.[16]

Economic competition among the states is an issue that goes back to the founding of the republic. In Federalist Paper No. 7, Alexander Hamilton expressed concern that the "competitions of commerce" among the states could lead to "contention" and that trade disputes might result in "reprisals and war." It is for this reason that the Framers made sure that the Constitution gave the federal government power to regulate interstate commerce and to issue a standard currency.

The states, however, remained free to a great extent to chart their internal economic policies. Moral issues aside, the decision by northern states to phase out slavery while southern states held fast to the practice represented a divergence in economic strategies.

States were also deemed free to engage in what would later be called industrial recruitment and industrial policy. As early as 1791, New Jersey created the Society for Establishing Useful Manufactures to promote investment around the Great Falls of the Passaic River—an initiative that has been called the country's first industrial park.[17] During the early 19th Century, a number of states used their own resources to help build transportation infrastructure—turnpikes, canals and railroads—to attract investment as well as population.[18] The success of New York's publicly financed Erie Canal prompted other states to take similar risks, borrowing heavily to do so.

These initiatives, which have been dubbed "state mercantilism," did not always pay off.[19] In fact, in the wake of the Panic of 1837, there was a series of state government bond defaults that put a check on the practice.[20] The high quotient of corruption in these public investments in private ventures is why many state constitutions written in the second half of the 19th Century included explicit prohibitions on grants or loans of public money to private parties, as well as provisions requiring uniformity in taxation.[21]

The first opportunity of states to play a significant role in influencing the location decisions of very large companies occurred later in the 19th Century. When tycoons such as John D. Rockefeller began to create vast industrial empires, they had to contend with the fact that state laws governing corporate charters put restrictions on the size and scope of a corporation's activity, including the ownership of out-of-state corporations. Rockefeller's flagship company Standard Oil of Ohio sought to get around this by creating the Standard Oil trust, in which Standard's affiliates were nominally independent but were actually controlled by a centralized board of trustees picked by Rockefeller. Similar trusts were created in a variety of other industries.

Standard Oil's transparent effort to circumvent state law was eventually struck down by the Ohio Supreme Court, but by that time Rockefeller and other robber barons had a new tool at their disposal: the willingness of some states to water down their chartering regulations to make them more attractive to big business. The pioneer of this practice was New Jersey, which adopted a series of legislative measures from the 1870s through the 1890s to make its regulations more business-friendly.[22] During this period, New Jersey became the destination of choice for trusts looking to legitimize themselves by reincorporating in a state that had no problem with bigness. That position was reinforced after Standard Oil made the Garden State its new base of operations. Muckraker Lincoln Steffens took to calling New Jersey the "traitor state."[23]

Other states sought to get in on this "chartermongering" action. In 1899 Delaware adopted a corporation law that was even looser than New Jersey's and had lower incorporation fees and franchise taxes. States such as Maine, Maryland, New York and West Virginia took similar steps—a phenomenon that prompted what was apparently the first use of the notion of a "race to the bottom."[24] After New Jersey later changed course and went back to stricter corporation laws, it was Delaware that became the new mecca of corporations and has remained so to the present day.[25]

A different kind of corporate mecca emerged in the 1930s, when Mississippi resurrected the practice of providing direct financial assistance to companies.[26] The individual who did the most to make this happen was Hugh Lawson White, who after getting electing mayor of Columbia, Mississippi in 1929, mobilized the resources of the town to raise $85,000 as an inducement to a Chicago-based clothing company called Reliance Manufacturing to open a manufacturing facility there.[27] In doing so, White enlisted the help of Chicago industrial realtor Felix Fantus, whose son-in-law used the Fantus name when he launched the legendary site location consulting business that would later be a major instigator of the economic war among the states.

White was subsequently elected governor of Mississippi on a platform called Balance Agriculture With Industry (BAWI). The way that balance was achieved was to lure other northern manufacturers with subsidies, especially tax-exempt bonds whose proceeds paid for plant construction and equipment. The facilities were technically owned by an Industrial Commission, which made them exempt from property taxes, and leased to the companies at rents tied to the low-interest, tax-free debt.

Gov. White made this happen by persuading the state legislature that his BAWI program served the public interest and by enlisting several prominent lawyers to draft the bond legislation to get around the prohibition in the state constitution against using public resources to aid corporations. [28]

In 1940 White's successor terminated BAWI, but the practice of issuing industrial development bonds caught hold in other southern states, especially after the Second World War. By 1962 nine southern and 12 non-southern states had created industrial bonding programs. As historian James Cobb wrote in his book *The Selling of the South*, "the BAWI approach to industrial promotion had become a bandwagon, and Mississippi's competitors for industry were jumping on."[29]

The 1950s saw heightened concern about the growing number of footloose companies that were abandoning long-standing industrial locations in the north to take advantage of benefits being offered by state such as Mississippi. Then-Sen. John F. Kennedy of Massachusetts decried southern "raiding," especially in the textile industry. Organized labor took notice. In 1955 the American Federation of Labor published a pamphlet with the title *Subsidized Industrial Migration: The Luring of Plants to New Locations*.[30]

A slew of bills to put a stop to industrial bonding were introduced in Congress, but southern delegations managed to block their passage. (In the late 1960s Congress finally passed legislation putting a dollar limit on federal tax exemption of the bonds.)

Aggressive offers of financial assistance were not the only way southern states lured northern industries. Dixie was also willing to help suppress wages so that companies had access to cheap, non-union labor. It was much easier to make such a guarantee after the passage of the Taft-Hartley Act in 1947. Section 14(b) of the Act gave states the right to enact laws outlawing union security provisions in labor agreements. States such as Arkansas and Florida had already enacted "right to work" laws well before Taft-Hartley. By 1954, 19 states, including all of the Deep South, had taken that step.[31]

Right-to-work legislation was by no means exclusively an industrial recruitment ploy. Yet having such a law on the books was used by economic development officials as a signal to potential corporate investors that they would find a business-friendly labor environment. Cobb notes that some southern communities went so far as to offer written commitments to those investors that their operation would be union-free.[32]

Southern states were not the only ones that enacted right-to-work laws and they were not the only ones that followed the lead of Mississippi in providing financial inducements to relocating companies. In 1949 Maine created the first statewide development credit corporation, and in 1955 New Hampshire created the first state government direct loan and loan guarantee programs for companies. The 1950s saw the creation around the country of publicly financed local development corporations to lure investment; by 1963 they numbered more than 3,000.[33]

A 1960 survey of state and local initiatives published by the Committee for Economic Development estimated total public spending on area development at $93 million, while similar privately financed efforts were put at $126 million.[34] A series of articles in the Federal Reserve Bank of Boston's *New England Business Review* in 1963 and 1964 was entitled "New War Between the States."[35]

By the mid-1960s the growing use of such inducements in interstate economic competition began to be seen as a public policy problem. In 1967 the Advisory Commission on Intergovernmental Relations published a report on state and location taxes and industrial location. It concluded that "the practice of making special tax concessions to new industry can have baneful effects on our federal system by setting in motion a self-defeating cycle of competitive tax undercutting and irrational discrimination among business firms."[36]

Unfortunately, those words were not taken to heart by public officials. Instead, many of them fell under the influence of site location consultants such as Fantus, which encouraged aggressive competition among states and localities for industrial investment.[37] By the 1970s, the resulting bidding wars brought about subsidy deals of unprecedented size. One of the most discussed was the package worth about $100 million that officials in Pennsylvania put together in 1976 for a Volkswagen assembly plant.[38]

This turned out to be the first in a series of nine-figure deals that foreign automakers would receive to open U.S. production facilities. Other issues (such as the impact on Big Three auto employment) aside, at least the "transplants" created new jobs. Unfortunately, Pennsylvania and other states also ratcheted up their efforts to pirate existing jobs from one another.

"You're conspicuous if you don't go after development," Norval Reece, Pennsylvania's Secretary of Commerce, told author Robert Goodman in an interview for his 1979 book *The Last Entrepreneurs*. "I'll go anywhere to keep up with the competition." Often, where he went was to nearby states such as Ohio and New Jersey, which adopted the same aggressive behavior. Ohio Gov. James Rhodes admitted that his state was now "in the raiding business," while a New Jersey official said: "What the South has been doing to New Jersey for 15 years, "I'm now doing to New York. It's cutthroat, regrettably, but it's every state for itself."[39]

The notion of a "Second War Between the States," the title of a much-discussed 1976 cover story in *Business Week*, received much more attention than it had when raised by the 1960s reports cited above.[40] The controversy also moved into the courts.

Between the mid-1980s and the mid-1990s, there was a series of high-profile lawsuits involving cities or states or unions suing companies for running away to other states (or a U.S. territory). At issue in each case were one or more economic development subsidies granted on the losing or winning end of the relocations. Otis Elevator was sued by Yonkers, New York. Hasbro (parent of Playskool) was sued by Chicago for jobs taken to Rhode Island. Amhoist was sued by St. Paul concerning jobs moved to North Carolina. Triangle Corp. (parent of Diamond Tool) was sued by Duluth, Minnesota when it moved jobs to South Carolina. A United Auto Workers local in Kenosha, Wisconsin sued Chrysler over jobs moved to Michigan. Newell Corporation was sued by the state of West Virginia for running away from Clarksburg to Ohio. An Oil, Chemical and Atomic Workers local in Elkhart, Indiana sued American Home Products over jobs moved mostly to Puerto Rico. General Motors was sued by Ypsilanti Township, Michigan for job flight to Texas.[41]

This spate of litigation, starting when the term "Rustbelt" was popularized and the book *The Deindustrialization of America* by Barry Bluestone and Bennett Harrison came out, bespoke an enormous amount of anger among dislocated workers and their community allies. They often organized grassroots campaigns to force public officials to file the lawsuits, violating normal "business climate" wisdom. Only one of the lawsuits actually arrested a plant closing (Diamond Tool in Duluth was saved for six years); some of the others resulted in monetary settlements or retraining help for the dislocated workers. The disputes prompted two Federal Reserve Bank of Minneapolis officials, Melvin Burstein and Arthur Rolnick, to issue an essay in 1995 urging that "Congress Should End the Economic War Among the States."[42]

Unfortunately, Congress did not express much interest in the problem until 2005, when the U.S. Supreme Court was getting ready to hear *DaimlerChrysler Corp. v. Cuno*, a case stemming from a lawsuit challenging the constitutionality of property tax abatements and investment tax credits such as those awarded to what was then DaimlerChrysler for its Jeep plant in Toledo, Ohio. Worried that the Justices might uphold a Sixth Circuit appeals court ruling in favor of the plaintiffs, Ohio Sen. George Voinovich (who had been governor of the state when the Jeep deal was negotiated) introduced a bill to trump a Supreme Court ruling upholding the appeals court by giving job piracy subsidies the blessing of Congress under its Commerce Clause powers.

The bill, which received wide bipartisan support from senators and representatives in the Midwest states that make up the Sixth Circuit, turned out to be unnecessary.[43] In 2006 the Supreme Court dismissed the core Constitutional case on the technical issue of standing.

In the absence of any significant legal or legislative challenges, interstate job poaching has proceeded apace. For example:

- In 2011, after the Illinois legislature raised business taxes to deal with deficit problems, Gov. Scott Walker of neighboring Wisconsin published an op-ed in the *Chicago Tribune* urging companies to "Escape to Wisconsin!" Indiana Gov. Mitch Daniels also pounced.[44] Speaking on Chicago radio, Daniels claimed that living next to Illinois was like being neighbors with The Simpsons, describing Illinois as a dysfunctional state.[45] Announcing that Indiana would welcome companies hopping the border, Daniels put up billboards reading "Illinnoyed by higher taxes?"[46]

- The *Boston Globe* published a profile of New Hampshire's top business recruiter, Michael Bergeron, labeling him a "full-time thief."[47] Bergeron, who was said to have removed the state seal from his car to be less conspicuous when visiting prospects, claimed to have lured dozens of firms from Massachusetts to the Granite State. Brazenly, he posted the *Globe* profile on his agency website.

- In 2010 Connecticut Gov. Jodi Rell faced allegations of inciting a border war by writing to New York City-based hedge fund managers: "I am personally inviting you and a few of your colleagues to meet with me. We have much to discuss! " The Governor added, "The meeting will be intimate, direct and private."[48]

- Connecticut's use of a tax credit to lure media production companies was satirized in an episode of the popular television show "30 Rock."[49]

While some of this behavior is based merely on competing and often baseless claims about relative business climates, recruitment efforts frequently include lavish subsidy offers. Programs such as the Texas Enterprise Fund, New Jersey's Business Employment Incentive Program, Promoting Employment Across Kansas, Georgia's EDGE Fund and Tennessee's Headquarters Job Tax Credit are being used to transfer hundreds of millions of dollars every year to companies that are willing to shift jobs from one state to another.

As we noted in our 2012 report *Paying Taxes to the Boss*, the problem has grown worse as numerous states followed the lead of Kentucky in tapping workers' personal withholding taxes as the financing source for big giveaways used to lure out-of-state corporations.[50] The Kentucky official who pioneered the approach in 1992 is reported to have called it "the atomic bomb of economic development incentives."[51] The fallout from that bomb remains with us today.

In the case studies that follow, we look at recent developments in those areas of the country where the problem of interstate job piracy is most pronounced. We profile some of the states that are the most aggressive poachers and the metropolitan areas where the poaching is most intensive.

Based on these assessments and the analysis in the preceding chapter, we offer a new and, we hope, more effective way to rein in the ruinous economic development race to the bottom.[52]

When Texas Governor Rick Perry threw his ten-gallon hat into the ring as a Presidential contender in 2011, he was unapologetic about his administration's use of massive taxpayer-funded corporate subsidies in the name of job creation, even when those jobs were existing ones being lured from other states.[53]

How did Gov. Perry amass the budgetary power to spend hundreds of millions in taxpayer dollars on direct subsidies to companies? In 2001, shortly after Perry succeeded George W. Bush, Boeing announced that it was looking to relocate its headquarters away from Seattle and that Dallas was one of three finalist locations. After losing to Illinois, which gave Boeing a $56 million subsidy package, Gov. Perry recounted, "we came back here after we lost that… analyzed our economic development efforts, and that's when we started making some changes."[54] In 2003, Gov. Perry got the legislature to create for him a "deal-closing" fund. The result was the Texas Enterprise Fund (TEF), a cash-grant relocation program controlled by the Governor.

But Perry drew the wrong lesson from the Boeing deal. Boeing executive John Warner, who headed the headquarters relocation search, openly admitted that subsidies and tax considerations did not push them to choose one location over another.[55] "As we looked at the total cost issues, it became an irrelevant point,'' said Warner. He continued, "Every place had incentives. Every place has certain costs." Indeed, the state of Washington had no corporate income tax while Illinois did.

Political influence was a major consideration in the decision. Boeing's move to Chicago gave the company added clout with then-House Speaker Dennis Hastert (R-IL) and U.S. Senator Dick Durbin (D-IL) who chaired the defense and transportation subcommittees on appropriations. After the announcement, Senator Durbin met with Boeing executives and stated that, "I feel good about what we can do to help them."[56]

Based on the costly assumption that throwing subsidies at small numbers of companies is the best route to economic growth, Perry's TEF has awarded $473 million in subsidies to about 100 companies. The state claims the deals have created some 64,000 jobs (more on that later). While the program frowns on shifting jobs around within Texas, jobs shifted from elsewhere in the United States are fair game for labeling as "new."

Texas Governor Rick Perry bragged about pirating jobs through his Twitter account in 2010.[57]

Many TEF deals are job relocations from other states. A 2011 legislative report on 26 TEF deals in FY 2010 and FY 2011 was candid about attracting relocations or expansions from out of state.[58] Nineteen of the 26 firms had headquarters in other states (six in California, three in Illinois). Gov. Perry once bragged during a business recruitment trip to San Diego that about one-third of the companies moving to Texas were from California.[59]

Texas's statewide attraction efforts are backed by a carefully orchestrated, privately-funded marketing group called TexasOne. Though it's not in charge of awarding subsidies, it plays a role in pitching subsidies to companies. While technically a private non-profit, it operates almost as an extension of the governor's office by covering the costs of travel and conferences touting Texas. TexasOne is funded by major corporations and site location consultants, enabling state officials to avoid having to explain to taxpayers why the state wines and dines wealthy CEOs.

For instance, in March 2011, TexasOne took top Texas officials on a recruitment mission to Los Angeles.[60] After meeting with site location consultants, the group met with four firms to tout the benefits of relocating to Texas. TexasOne—which is primarily responsible for the relocation jingle "Texas: Wide Open for Business!"—also sends direct-mail promotional material to companies and site location consultants in other target states. In fact, TexasOne plans to set up events in Los Angeles and Silicon Valley to continue making relocation pitches to California companies.[61]

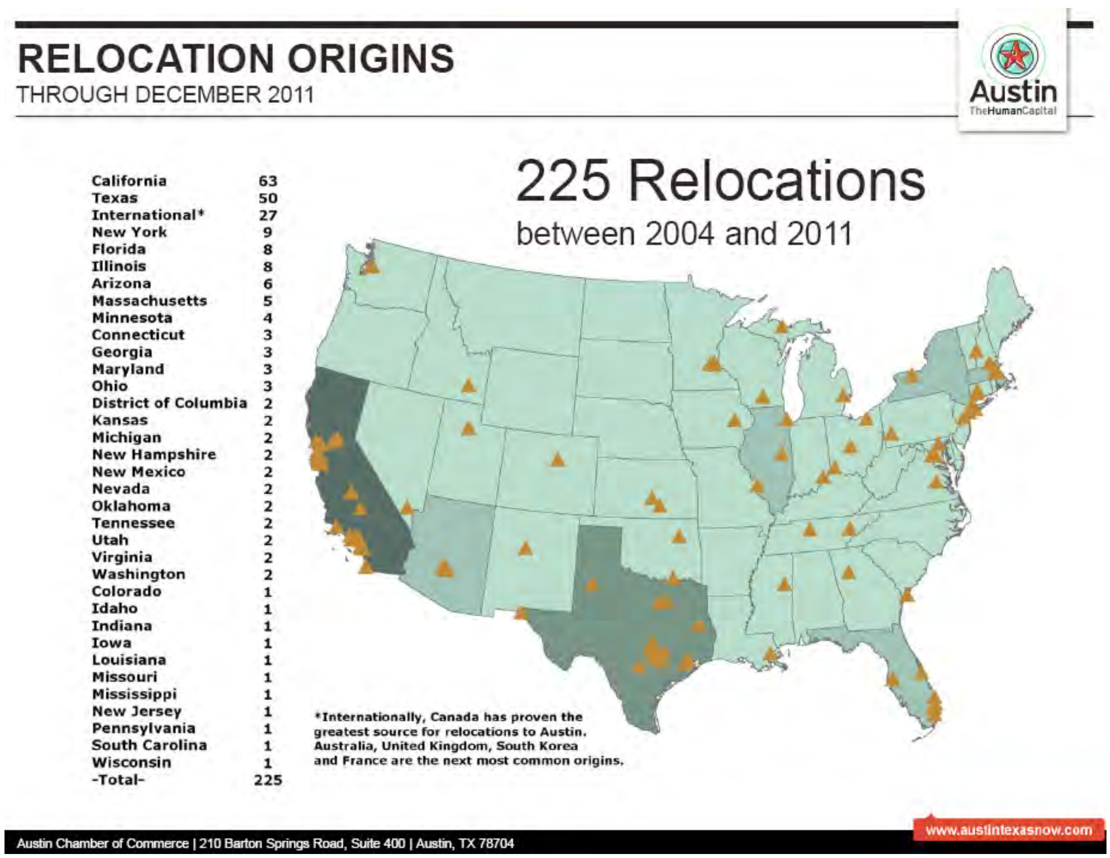
One area of the state particularly keen on targeting California jobs is Austin. The Austin Chamber of Commerce openly keeps tabs on where companies relocate from. California tops its list: Of 225 relocations into the Austin area between 2004 and 2011, 63 were from California, while only 50 companies came from within Texas. Among the largest deals inked for California-based companies are:

- Apple received close to $30 million in subsidies, over two-thirds of which came from TEF, and the rest was supplied by Austin.

- Facebook received a $1.4 million subsidy for a campus in Austin through TEF.

- eBay received a $2.8 million TEF subsidy to open a 1,050-job facility in Austin.

- LegalZoom was awarded $1 million in TEF subsidies and about $750,000 in local subsidies to expand its Los Angeles-based business in Austin.



The Austin Chamber of Commerce issued this map during its annual meeting in 2012.[62]

It's puzzling that Texas would award so much money to tech companies that clearly want to be in Austin for other reasons, such as the quality of the workforce, the presence of a major research university and the fact that other tech companies already have operations there dating back to the dot com boom of the 1990s, when the area became known as "Silicon Hills." As Creative Class guru Richard Florida notes, Austin has attractive qualities that tech companies seek.[63] With so much going for it, subsidies hardly seemed justified.

The same can be said specifically about TEF. When journalists and government watchdogs began scrutinizing the program's job claims, they soon found many discrepancies. Texans for Public Justice (TPJ) analyzed the actual job creation outcomes from 2009 TEF deals. It found that two-thirds of the 50 grantees missed job targets. In fact, the state lowered the job creation requirements on 14 non-performing grants. Overall, deals that had promised 50,000 jobs had so far actually created only 30,000 (it could not be determined how many came from other states). TPJ has not yet investigated the newer 64,000 jobs number. With so many deals failing to perform as promised, TPJ dubbed TEF a "phantom jobs fund."

TPJ also found what looks to be a rampant "pay-to-play" problem.[64] More than a quarter of the subsidized companies, along with their executives and political action committees, had made campaign contributions to Perry or his surrogates.[65] *The Wall Street Journal*, in assessing his conservative credentials for the presidency, dubbed this "Rick Perry's Crony Capitalism Problem."[66]

On the campaign trail, Perry portrayed himself as an outsider to the Washington, D.C. establishment. But he is clearly central to Austin's subsidy-industrial complex, with active ties to site location consultants who sometimes reap commissions from the subsidies awarded to their clients. As the *New York Times* recently detailed, one of the most politically connected such operatives is G. Brint Ryan, owner of Ryan LLC.[67] The firm focuses on finding tax loopholes and special subsidy deals for clients (motto: "Innovative Solutions to Taxing Problems"). According to former employees, it gets commissions of as much as 30 percent from subsidy deals it brokers with the state.

What are Ryan LLC's so-called innovative solutions? The firm hires former government officials who worked for the state administering subsidy deals.[68] Ryan has personally made significant campaign contributions to both the governor and other overseers of economic development deals such as the comptroller. Ryan cofounded the PAC that supported Gov. Perry's presidential bid and donated $250,000 to it. Ryan LLC's sway is so powerful in Texas that Perry appointed one of its employees to a commission evaluating the state's tax system. Ryan LLC claims a role in more than 30 percent of all enterprise zone subsidy deals in the state of Texas.[69]

Another reason to question Perry's growth-through-subsidies approach is that some of the companies lured to Texas seemed to be mainly interested in the right-to-work state's adverse environment for unions. For example, GE Transportation recently got a $2.8 million TEF grant for a locomotive manufacturing facility in Fort Worth. But the 775 jobs are hardly new: they have existed for decades in Erie, Pennsylvania.[70] The deal was described to Erie workers as needed spillover capacity, but it soon became clear that GE was starting to relocate some of the unionized 3,700 Erie jobs to the non-union plant in Texas, where the wages being offered were $10 an hour lower.[71] Two other TEF awards totaling more than $18 million were recently given to Caterpillar, which has a contentious labor relations history, including a four-month strike in Illinois last year.[72] One of the grants was for a facility which would, the company admitted, produce some heavy equipment previously made in Aurora, Illinois.

Using its big checkbook, Texas is an exceptionally aggressive player in the world of interstate job piracy. Tight gubernatorial control, pay-to-play campaign contributions, private funding for travel and entertainment, aggressive marketing, consultant commissions and hostility toward unions are the building blocks of the Lone Star state's subsidy-industrial complex.

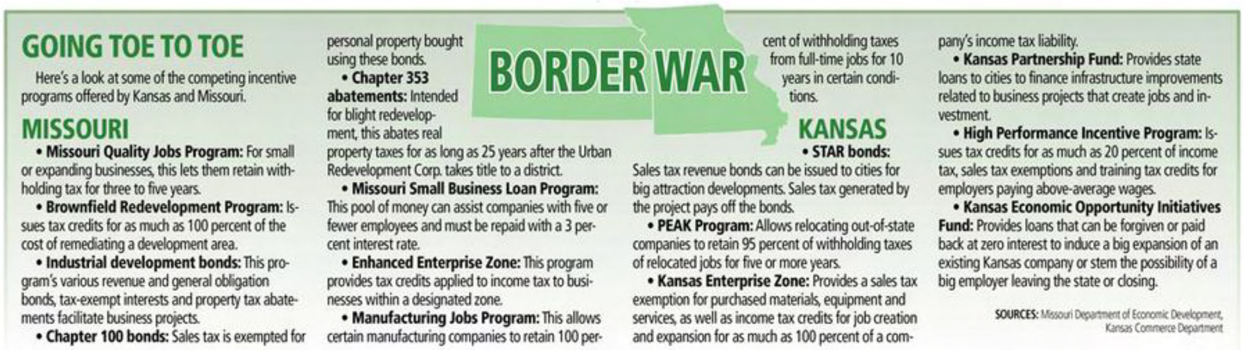
River Pirates:
Jobs as Plunder in the Kansas City Metro Area

There is no jobs border war more intense these days than the one raging in the Kansas City metropolitan area, which straddles the Missouri River and includes communities in both Missouri and Kansas. Both states unabashedly poach businesses from each other, aided by similarly structured tax credits that allow footloose companies to retain large portions of their employees' state personal income tax.

In Kansas, job poaching is financed by the Promoting Employment Across Kansas, or PEAK, program. PEAK was enacted in 2009 and its total cost to the state is not disclosed. Originally structured to pay only for relocation deals that brought existing jobs from outside of the state, it was later broadened to cover retention deals as well. Through PEAK, companies can retain up to 95 percent of employees' state personal income tax withholding for the "creation" of as few as five jobs.[73]

A sample of companies that have moved to Kansas from Missouri in recent years includes JPMorgan Retirement Plan Services, which received $15.3 million to relocate 800 jobs from Kansas City to affluent Overland Park in 2009.[74] The following year, KeyBank Real Estate Capital moved 300 jobs from Kansas City to Overland Park with a $15 million subsidy package from the state.[75] In 2011, biotech company Teva Neuroscience received $40.7 million from Kansas in exchange for an agreement to move its 400 employees from Kansas City to Overland Park as well.[76] The same year, movie theater chain AMC Entertainment received $47 million in tax subsidies to move its corporate headquarters from Kansas City to Leawood, Kansas.[77] It took 400 jobs with it across the state border. Shortly after, the company was sold for $2.6 billion to a Chinese entertainment conglomerate.

The job subsidy program most used by Missouri to pirate jobs is the Quality Jobs Tax Credit. To be eligible for the subsidy, companies must "create" as few as 10 jobs (depending on the industry and location). New jobs are defined as any that didn't exist inside Missouri at the time the company applied for the subsidy. Approved companies can retain up to 100 percent of the state personal income taxes owed by "new" job holders to the state.[78] The credit was enacted in 2005 and has subsidized many border hoppers moving from the Kansas side of the river. The cost of this program, as measured by credits redeemed, has skyrocketed from



GOING TOE TO TOE

Here's a look at some of the competing incentive programs offered by Kansas and Missouri.

BORDER WAR

MISSOURI

- **Missouri Quality Jobs Program:** For small or expanding businesses, this lets them retain withholding tax for three to five years.
- **Brownfield Redevelopment Program:** Issues tax credits for as much as 100 percent of the cost of remediating a development area.
- **Industrial development bonds:** This program's various revenue and general obligation bonds, tax-exempt interests and property tax abatements facilitate business projects.
- **Chapter 100 bonds:** Sales tax is exempted for personal property bought using these bonds.
- **Chapter 353 abatements:** Intended for blight redevelopment, this abates real property taxes for as long as 25 years after the Urban Redevelopment Corp. takes title to a district.
- **Missouri Small Business Loan Program:** This pool of money can assist companies with five or fewer employees and must be repaid with a 3 percent interest rate.
- **Enhanced Enterprise Zone:** This program provides tax credits applied to income tax to businesses within a designated zone.
- **Manufacturing Jobs Program:** This allows certain manufacturing companies to retain 100 percent of withholding taxes from full-time jobs for 10 years in certain conditions.

KANSAS

- **STAR bonds:** Sales tax revenue bonds can be issued to cities for big attraction developments. Sales tax generated by the project pays off the bonds.
- **PEAK Program:** Allows relocating out-of-state companies to retain 95 percent of withholding taxes of relocated jobs for five or more years.
- **Kansas Enterprise Zone:** Provides a sales tax exemption for purchased materials, equipment and services, as well as income tax credits for job creation and expansion for as much as 100 percent of a company's income tax liability.
- **Kansas Partnership Fund:** Provides state loans to cities to finance infrastructure improvements related to business projects that create jobs and investment.
- **High Performance Incentive Program:** Issues tax credits for as much as 20 percent of income tax, sales tax exemptions and training tax credits for employers paying above-average wages.
- **Kansas Economic Opportunity Initiatives Fund:** Provides loans that can be forgiven or paid back at zero interest to induce a big expansion of an existing Kansas company or stem the possibility of a big employer leaving the state or closing.

SOURCES: Missouri Department of Economic Development, Kansas Commerce Department

The *Kansas City Star* has documented dozens of raids in the metro area by both states. It catalogued the subsidies most used in job poaching deals.[79]

$1.7 million in 2007 to $28 million in 2011. In 2012, Missouri authorized up to $99.9 million in new credits. [80]

Some of the companies recently subsidized to move from Kansas to Missouri include the Applebee's restaurant chain headquarters, which moved from Lenexa to Kansas City, securing $12.5 million from Missouri for 390 jobs.[81] In August 2012, less than a year after receiving the relocation subsidy from Missouri, the company eliminated 47 jobs. Missouri also subsidized North American Savings Bank to relocate in 2011. The financial institution received $5.8 million in state incentives and about $111,000 in local subsidies to relocate 204 jobs from Overland Park to Kansas City that year.[82] In 2012, Velociti, a tech firm, moved its headquarters and 60 jobs from Kansas City, Kan., to Riverside, Missouri to receive a subsidy package valued at $1.6 million.[83] Freightquote, a shipping company, also moved its headquarters and 1,225 jobs from Lenexa, Kansas to Kansas City, Missouri in 2012. The 12-mile move landed the company a city and state tax incentive package valued at $64.3 million over 23 years.[84]

These deal examples come from media reports. Kansas does not provide comprehensive disclosure of PEAK recipients, making a full geographic analysis difficult. The *Kansas City Business Journal* took a stab at this and found that of the 55 PEAK applications approved between 2010 and May 2012, 44 were businesses relocating to or expanding in Johnson or Wyandotte Counties of Kansas, which are affluent areas in the southern section of the Kansas City metropolitan region.[85] No such analysis has been performed on the use of Quality Jobs tax credits in Missouri.

Fifteen years ago, the two states signed an anti-poaching agreement that was an utter failure.[86] The Kansas Department of Revenue acknowledges the agreement's existence but has been unable to produce the document.[87] A more recent attempt to halt the bitter jobs war was considered by the Missouri legislature in 2012. Lawmakers there debated a bill that would have required Missouri to stop poaching jobs from Kansas, as long as Kansas passed a mirror bill. Lacking that companion bill from the Kansas legislature, the Missouri bill would have committed the state to spend $1.50 for every $1 spent by Kansas on economic development subsidies. The carrot-stick combination legislation failed to pass.

In 2011, a call for a cease-fire came from 17 prominent Kansas City-area business executives who issued a public letter urging Govs. Jay Nixon and Sam Brownback to stop subsidizing companies that move across the state line. The letter argued in part:

> *State incentives are being used to lure businesses back and forth across the state line with no net economic gain to the community as a whole and a resulting erosion of the area's tax base… At a time of severe fiscal constraint the effect to the states is that one state loses tax revenue, while the other forgives it. The states are being pitted against each other and the only real winner is the business who is "incentive shopping" to reduce costs. The losers are the taxpayers who must provide services to those who are not paying for them.*[88]

While this effort by business leaders has so far been unsuccessful, the signatories of the letter continue to be outspoken in their support of a bi-state solution to the costly jobs war. In a recent appearance on a video about the region's border war, Don Hall, Jr., CEO of Hallmark, told the *New York Times*: "The businesses are just moving their address from one side of the street to the other and they're collecting great tax incentives at the expense of the taxpayers and at the expense of the other businesses in the community and it's really not creating any net gain."[89] Unfortunately, this call for reason is still unheeded, and the wasteful border war continues.

New Jersey Doubles Down with Relocation Subsidies for Rich New York Firms

Many large companies in sectors such as finance and media feel they need to be based in Manhattan, but when pressured to cut costs they often look across the Hudson River to New Jersey in the quest for lower rents. Rather than simply taking advantage of geography, New Jersey bestows lavish subsidy packages on companies making the short-distance move.

Although there is a long history of firm migration across the Hudson, a new dynamic kicked in following the attack on the World Trade Center in 2001. The attack prompted many financial services and insurance industry firms to decentralize back office operations to improve data security (as well as reduce rents). New Jersey's use of subsidies to reward companies leaving New York intensified during this period. Jersey City, just across the Hudson, became a favorite destination: between 2001 and 2005, Goldman Sachs, Lord Abbott, U.S. Trust, Merrill Lynch, Morgan Stanley, and J. P. Morgan Chase all opened office operations there, and many were subsidized by New Jersey.[90] Given the similarity of the deals—and the fact that Wall Street's decentralization was no secret—New Jersey appears to have paid some very wealthy firms to do what they planned to do otherwise.

Subsidy programs enacted by New Jersey to bankroll job piracy—both before and since September 11—have become monumentally more expensive.[91] In particular, New Jersey's Business Employment Incentive Program (BEIP), designed specifically for relocations or expansions from elsewhere, has ballooned to over $178 million per year as of 2011.[92] Through BEIP, the state awards up to 80 percent of "new" employees' state income taxes to their employers.[93]

The Urban Transit Hub Tax Credit (UTHTC), enacted in its current form under former Gov. Jon Corzine in 2008, was once laudable for its goal of coordinating economic development subsidy use with transit location efficiency. Under Gov. Chris Christie, the state's Economic Development Authority (EDA) has made prodigious use of the UTHTC for other purposes. The program's tax credit pool has ballooned to $1.75 billion, nearly $1 billion of which has been awarded to job retention projects and pirated businesses alike since 2010.[94] Funds through this program were used in a controversial bid for New York's online grocery delivery company, FreshDirect. Mayor Michael Bloomberg accused New Jersey of bribery following the episode (which the city responded to by giving preliminary approval to a $127 million retention subsidy for the company[95]): "I don't like the idea of one state bribing a business to come.... The trouble with that is the next state can do it, too. Anybody can get in that game, and pretty soon, it's a race to the bottom. I don't think anybody benefits."[96]

During the Corzine Administration, New Jersey's tax increment financing program, known as the Economic Redevelopment Growth Grant or ERG, was grossly expanded to capture and divert as many as 19 future streams of tax revenue to subsidize redevelopment. In an early new-ERG deal in 2009, New Jersey granted $14.6 million in diverted state and local taxes for the Depository Trust and Clearing Corporation to move 1,600 jobs from Manhattan (Jersey City contributed $1 million and NJEDA gave a whopping $74.6 million BEIP grant), despite the fact that company had already announced its intention to move.[97]

Banking giant Citigroup has been a serial recipient of subsidies when moving jobs out of New York: It received a $57 million grant in 2004 to move 1,600 jobs across the Hudson River. Next was a BEIP grant (of its employees' payroll taxes) worth an estimated $37.1 million for moving more jobs to Jersey City in 2006. And in early 2011, the NJEDA announced an award of $14.3 million for 400 more Citi jobs from New York.[98] During the same period, in 2006 Deutsche Bank was awarded $22 million to move 1,200 jobs from Manhattan to Jersey City.[99] These subsidies were provided even though a glut of new office space in Jersey City was driving rents down there while rents in Manhattan were recovering post-9/11, creating a market incentive to move.

"I'm going to Illinois, personally, and I'm going to start talking to businesses in Illinois and get them to come to New Jersey."

- Governor Chris Christie

New Jersey doesn't limit its job piracy efforts to New York. One of Gov. Christie's first public actions following his inauguration in 2011 was to launch a poaching campaign aimed at Illinois. Just days after Illinois passed legislation temporarily increasing the corporate income tax rate to help balance its budget, Christie announced, "I'm going to Illinois… I mean soon… I'm going to Illinois, personally, and I'm going to start talking to businesses in Illinois and get them to come to New Jersey."[100] Soon thereafter, New Jersey bought $300,000 worth of advertisements in the Chicago market: "Had enough of outrageous tax increases?"

the ads asked, "…Choose New Jersey!"[101] Despite the major media coverage of New Jersey's expensive campaign, firms did not flee Illinois for the Garden State.

New Jersey also funds expensive job retention deals. Increasingly under Gov. Christie, firms have received huge retention subsidies to remain in New Jersey after claiming that they are being courted by other states. Seeking to relocate its headquarters from Secaucus, Panasonic North America was courted by New York City officials offering a location in Brooklyn.[102] The company eventually settled on Newark, where it received a $102 million combined state and local subsidy.[103] Goya Foods also left Secaucus, and with $82 million in retention/in-state relocation subsidies moved its headquarters to Jersey City in 2012.[104]

New Jersey's use of such large subsidies to relocate firms inside the state has caused its own headaches. In one instance, the owner of the building that currently houses Prudential Insurance (which recently received $250 million in subsidies for a combined relocation/consolidation project that would move the firm's offices just five blocks) challenged the state over its use of the subsidy.[105]

Following Hurricane Sandy, there is hope that New Jersey and New York will focus more on cooperation rather than competition. Gov. Christie and New York Gov. Andrew Cuomo worked together in pressuring Congress to approve a storm aid package. It remains to be seen whether the post-Sandy kumbaya will last.

Georgia: The Poach State

In 2009, NCR stunned economic development officials in Ohio and delighted their counterparts in Georgia when it announced plans to move its corporate headquarters and some 1,250 jobs from Dayton to the Atlanta area. At the same time, NCR (formerly named National Cash Register) said it would construct a new ATM manufacturing plant with 870 jobs in Columbus, Georgia, some of them relocated from South Carolina.

This major case of interstate poaching by Georgia began the year before with a smaller deal: NCR's decision to move its Global Customer Service center to Georgia. Officials in the Peach State had something bigger in mind. "There was always a subtext, that if we could land Phase 1, we could land the headquarters," said Heidi Green, Deputy Commissioner for Global Commerce at the Georgia Department of Economic Development.[106]

It took "closed-door governor-CEO meetings...hundreds of phone calls, dozens of meetings and at least one five-star dinner" to lure NCR to Georgia.[107] The Atlanta Metro Chamber worked with local banks to provide relocation packages for NCR workers and with airlines to offer them discount plane tickets. NCR officials participated at least three times in the Red Carpet Tour, the Georgia Chamber of Commerce's annual marketing event, before deciding to move the company's headquarters to Atlanta.[108]

In an attempt to prevent the move, Ohio Gov. Ted Strickland offered NCR a $31 million subsidy package.[109] Georgia's subsidy, on the other hand, was initially said to be worth $60 million, but the *Atlanta Journal-Constitution* later put its value at about $109 million, mostly from tax credits.[110]

NCR's other project, an ATM production facility in Columbus, Ga., almost caused a federal scandal. The City applied for $5.5 million in Recovery Act aid to acquire and retrofit the facility. The White House immediately quashed that plan: Vice-President Joe Biden stated publicly that no stimulus money would be available to NCR, and he wrote to Ohio representatives: "The use of Recovery funds for the potential relocation of jobs from one state to another is not an approved use."[111] Consequently, the U.S. Department of Commerce denied Columbus' application for the stimulus funds.

NCR is far from the only company lured to Georgia from another state. In fact, despite claims by Georgia officials that the main focus of their economic development strategy is on expanding in-state companies, subsidized relocations to the state are common. Between 1999 and 2010, 43 Midwestern companies moved to the Atlanta region, nearly half of them from Ohio.[112] In FY 2012, out of 403 deals in Georgia, 144 were relocations.[113]

The Georgia Development of Economic Department (GDED) and it Global Commerce Business Enterprise Team are the state's main recruitment bodies; and the members of the Corporate Solution Team (part of Global Commerce) are described as "frontline resources for headquarters relocations projects, as well as financial services companies and call centers."[114]

An article from 2010 reported that the Department had business recruitment offices in Pennsylvania and California.[115] The GDED website currently lists a California phone number for a West Coast Business Development position, which is a part of the Logistics, Energy, Agribusiness & Food Team.[116] It has been reported that the state's economic development commissioner travels extensively across the country.[117]

Georgia also uses marketing events such as the invitation-only Red Carpet Tour and the Georgia Quail Hunt, both organized by the Georgia Chamber of Commerce, to bring together CEOs and public officials.[118] The Georgia Quail Hunt website declares that since 1994, the guests "have invested over $2.5 billion in Georgia and created more than 8,400 new jobs through corporate relocations or expansions."[119]

Georgia uses a range of subsidy programs when poaching jobs. Among these are the Quality Job Tax Credit, Job Tax Credit and Mega Project Tax Credit, which offer between $750 and $5,250 per job.[120] The credits cannot be used for jobs transferred from elsewhere in the state, but relocations from out of state are fully eligible. The credits are first applied against a company's corporate income tax. Any remaining value can be applied against workers' withholding tax, meaning a company can keep some of its workers' state personal income tax payments.[121]

The EDGE (Economic Development, Growth and Expansion) Fund and the REBA (Regional Economic Business Assistance) Program are Georgia's deal closing funds. Even though they are often used for in-state expansions, the programs have also been used in relocations. The funds provide assistance to communities that compete for a project with another community in a different state. Like the tax credit programs, they don't allow subsidies for jobs that are transferred within the state, but they do apply to jobs that are transferred from another state, even when they are held by relocated workers.[122] Since 2001, REBA and OneGeorgia (of which EDGE is a part) have cost the state more than a half-billion dollars, according to the Georgia Budget and Policy Institute.[123]

These subsidies also play a role when Georgia participates in multistate competitions for trophy projects, such as the 2012 battle for a $1 billion production facility announced by Illinois-based medical products company Baxter International. Georgia won the auction with a bid that was originally said to be worth about $80 million, but an investigation by the *Atlanta Journal-Constitution* estimated the cost will actually be some $210 million.[124]

Charlotte Metro: A Boom Town In-Fights over Growth Instead of Managing It

Most metro areas would die for Charlotte's business basics. One of the fastest-growing areas in the U.S., it is the nation's second-largest banking center, home to Bank of America and Wells Fargo's East Coast operations. It has the second-busiest airport in the Southeast, is home to nine Fortune 500 companies and the NASCAR Hall of Fame, and has gained expansion pro sports franchises. Between the 2000 and 2010 censuses, it gained 32 percent in population; the fourth fastest rate in the nation.[125] It has ballooned to span 12 counties in southwestern North Carolina and 4 counties in northern South Carolina.

Despite this enviable growth, for more than a decade, local governments in the Charlotte metropolitan area have been subsidizing companies to simply move jobs short distances within the labor market, but across the state line. State-based subsidies and local site selection consultants have also figured prominently in this wasteful process.

Some local officials are unapologetic. On the South Carolina side, Lancaster County's development director Keith Tunnell has said: "We will continue to offer Charlotte companies that contact us incentives to come to Lancaster County."[126] His counterpart in York County, Mark Farris, said: "I don't put up billboards... but I don't dissuade a company just because they are presently located in Charlotte, either."[127] On the North Carolina side, Marvin Bethune, an official with Mecklenburg County, complained that "whenever a business is considering locating in Charlotte, they are also being wooed by South Carolina and, in particular, York County."[128]

Between 2003 and 2006, relocations occurred so often that they became a "touchy subject,"[129] prompting the Charlotte Regional Partnership, a public-private partnership that markets bi-state area, to commission a study on the problem.[130] The 2006 study found that companies relocated for business reasons, and that there is no evidence the 16 counties consciously poach jobs from each other. However, "they do not need to," the study says, given that there are numerous site selection consultants, "land developers, tenant representatives, and law and consulting firms with incentive negotiation practices" eager to stoke subsidy competition for their clients. In another words, even if officials do not explicitly poach from each other, financially motivated consultants and real estate interests drive the interstate job-subsidy process.

While concluding that subsidies "are never the only decision factor," the study found South Carolina has more lucrative state subsidies, giving its counties an "unfair competitive advantage" that "violate[s] the spirit of regional partnership."

> ***"Whenever a business is considering locating in Charlotte, they are also being wooed by South Carolina and, in particular, York County."***
>
> \- Marvin Bethune, Mecklenburg County

The study recommended continuing a dialog "on intra-regional incentive practices" and hoped that the dialog would be taken even to the state level. As a follow-up, Charlotte officials proposed an agreement to stop subsidizing the movement of jobs within the region. However, that idea went nowhere when several counties, on both sides of the border, opposed it.[131]

Since the publication of the study, payouts to companies for shifting existing jobs across the border have continued, and state-level subsides have remained a big part of the giveaways. In an email to us, the Charlotte Regional Partnership said: "Companies may choose to operate where they find the greatest likelihood of success. Should a growing company not be able to find a suitable location in its current community, then it is typically a matter of practicality that they would consider a nearby county."[132] Hence the recurring question: If companies move within the region for business-basics reasons, why should states and localities waste money subsidizing those relocations?

In its recruitment efforts, South Carolina often uses its Job Development Credit, which allows companies to retain withholding taxes equal to 2 to 5 percent of a worker's gross wages. The program counts relocated positions to the state as "new," including those that are already held and retained by incumbent workers who may reside in North Carolina.[133] South Carolina's Job Tax Credit, another widely used subsidy, has the same "new job" definitions.[134]

In North Carolina, the two main competitive subsidies are deal-closing grants. One North Carolina grants are available to communities that are in direct competition for a project with another state.[135] Job Development Investment Grants, or JDIGs, can be allocated to no more than 25 projects a year, but the program cap is set quite high at $180 million per year. The value of the subsidy is between 10 and 75 percent of the state withholding tax paid by an eligible worker. Both programs define a "new job" as one that is new to the state and disqualify job transfers only within the state.

These programs have been used to subsidize intra-regional relocations. In 2009, Continental Tire relocated its North American headquarters from Charlotte to South Carolina's Lancaster County.[136] The company received a subsidy package that included Job Development Credits from the state and property tax abatements from the county.[137] The company moved about 320 positions that South Carolina counted as "new" jobs. But a reported 123 employees at the facility already lived in York or Lancaster counties.

Other times, the two states' subsidy programs simply establish the opening bid. In early 2011, Bluestar Silicones announced it had outgrown its location in York County, S.C. and was planning to consolidate its South Carolina and California operations in Mecklenburg County, N.C. North Carolina was willing to base its subsidies on all of the company's jobs, while South Carolina was willing to subsidize only those to be created plus those relocated from California. North Carolina offered $340,000 from its One North Carolina Fund; Charlotte and Mecklenburg County added $304,207. However, after a personal intervention by South Carolina Gov. Nikki Haley, Bluestar agreed to stay in the state. South Carolina matched North Carolina's subsidy package, using state and local infrastructure credits and a 45 percent property tax abatement.[138]

In addition to the intraregional competitions, Charlotte has been involved in competitions for relocations and consolidations from other parts of the country. In 2009 it beat out Georgia, Texas, Florida and South Carolina, for the North American headquarters of Electrolux. The company consolidated existing operations and brought 738 jobs (a mix of new hires and relocated jobs) to Charlotte. Despite the fact that the company was mainly interested in the quality of the local workforce and the area's transportation network, the state offered Electrolux $1.2 million through the One North Carolina Fund and $33 million through JDIG, which the company used to offset moving expenses. Electrolux moved jobs from seven sites in South Carolina, Ohio, Pennsylvania and Tennessee.[139]

In 2011, Chiquita Brands moved its headquarters and 400 jobs from Cincinnati, Ohio to Charlotte. It received $22 million in state and local subsidies, including $16 million through JDIG and $2.5 million through the One North Carolina Fund; the rest came from the city and county, mostly through property tax abatements.[140]

The Charlotte metro region is experiencing job and population growth that most other regions can only wish for. Unfortunately, wasteful subsidy giveaways still encourage companies to move short distances across the state border. Despite the frustrations of some public officials with the costly shell game, consultants and real estate interests drive the status quo.

Tennessee and Memphis: Opposite Roads

Tennessee has been an aggressive recruiter of companies from other states, while its largest city, Memphis, is a target of job poaching from neighboring Mississippi. However, the travails of Memphis seem not to inform state policy.

Tennessee is a state where one would hope that public officials understand the value of interstate cooperation. All of its largest metro areas except Nashville border other states: Memphis abuts Mississippi and Arkansas; Clarksville borders Kentucky; Chattanooga straddles Georgia; and Knoxville and Johnson City are close to North Carolina.

Instead, Tennessee economic development officials, in the words of one business publication, "typically spend more resources targeting company relocations" than in assisting incumbent businesses.[141] Even though Gov. Bill Haslam took office in 2010 saying he intended to put more emphasis on local businesses, he did not abandon efforts to recruit out-of-state companies. The state has "no intention at all of giving up on going to the ends of the earth to get companies to relocate to Tennessee," the Governor declared.[142] Clint Brewer, Assistant Commissioner of the Tennessee Department of Economic and Community Development, told us that recruitment of companies is as important for the current administration as helping existing companies to expand.[143]

> ***Tennessee has "no intention at all of giving up on going to the ends of the earth to get companies to relocate to Tennessee."***
>
> -Governor Bill Haslam

The two main economic development programs used by the state in its recruitment efforts are FastTrack and the Headquarters Job Tax Credit.[144] Both programs subsidize jobs relocated from other states by calling them "new to the state." Subsidies are available even if those "new jobs" are already occupied by workers who move with the company (or who simply gain a different commute). The Job Tax Credit, another widely used program, follows the same rules.[145]

In 2012, the FastTrack program was expanded at the Gov. Haslam's request. The newly created FastTrack Economic Development Fund provides grants and loans covering, besides traditional job training or infrastructure, other costs such as company relocation expenses.[146]

The Headquarters Relocation Expense Credit is a component of the Headquarters Tax Credit. Among its qualified relocation expenses are employee relocation costs. The value of the credit depends on the number of relocated positions and ranges from $10,000 to $100,000 per position.[147]

Among the relocating companies that have taken advantage of these programs are Sprint, which in 2011 moved a call center from Virginia, getting about $2.7 million in job tax credits and a $2.2 million FastTrack grant; and Carlisle Transportation Products, which in 2009 consolidated tire production from Alabama and Pennsylvania, receiving 70 percent property tax abatements for 20 years along with utility credits and a job training grant.[148]

But the biggest Tennessee catch came in 2005, when Nissan moved its North American headquarters and 1,300 jobs from Los Angeles to Williamson County, south of Nashville. Nissan had built a North American assembly plant in Smyrna, Tennessee in 1980, so with a three decades-long relationship, the state was on Nissan's radar screen when the company considered moving its headquarters. But Tennessee actively encouraged the relocation, even creating a whole new subsidy program for it. "It was our dream that Nissan would move its corporate headquarters here," then-Governor Don Sundquist said.[149]

After California experienced electrical blackouts in 2001, Tennessee "peppered" Nissan and other California companies with flashlights that said "The lights are always on in Tennessee."[150] Soon after that, Tennessee and Nissan officials met in California. During the meeting, Nissan Senior Vice President Jim Morton mentioned the possibility of relocating Nissan's headquarters somewhere in the South. A month later, Tennessee hired McCallum Sweeney Consulting, Nissan's site selection consultant, to do a $100,000 comparative study of Dallas, Nashville, Charlotte and Los Angeles. (States and cities have long hired site location consultants to perform such studies; their broadly understood primary motive in doing so is to gain the attention of the consultant and his clients, rather than to gain insights.)

Morton later recalled that during one of several meetings with Tennessee officials, Tennessee Sen. Bill Frist said to him, "It would be great to have your corporate headquarters in Nashville." "His comment stuck in my mind," Morton remembered.

Five months before Nissan announced its headquarters relocation, the Tennessee legislature enacted the Headquarters Relocation Expense Credit. *The Ten-*

nessean reported that the law was introduced and passed at the request of Mark Sweeney of McCallum Sweeney Consulting.[151] Economic and Community Development Commissioner Matt Kisber denied that but admitted that Mark Sweeney advised on the law and gave the state "working parameters."[152]

For its move, Nissan received about $197 million in total state subsidies, including $64 million ($50,000 per relocated employee) from the new credit. The company also received a 47 percent property tax abatement from Williamson County estimated to be worth $32.5 million. The city of Franklin even borrowed $15 million to buy land on which Nissan's headquarters was built.[153]

Memphis Uses PILOTs

While Tennessee actively recruits companies from out of state, Memphis and Shelby County in the state's southwestern corner lose local firms to neighboring Mississippi, especially DeSoto County.

The Memphis metro region, the second largest urban area in Tennessee, is home to three Fortune 500 companies and has the largest cargo airport in the country (which FedEx uses as its main hub). Despite the region's economic strength, Memphis and Shelby County are involved in a costly border battle in which Mississippi uses two kinds of property tax breaks and a subsidy that allows companies to retain a large share of employees' state income tax withholding payments.[154]

Mark Herbison, senior vice president for economic development at the Greater Memphis Chamber, once said: "Memphis is locked in a bare-knuckled fight with competitors like the state of Mississippi that throw money at companies and steal jobs...They've been creaming us. They've been beating our brains out year after year after year after year..."[155]

As a response to Mississippi giveaways, Memphis and Shelby County offer property tax abatements structured as payments in lieu of taxes, or PILOTs. As a measure of the severe pressure facing Memphis by 2011, of all the revenues lost to PILOTs in Tennessee, almost one-third were in Shelby County.[156] According to an AFSCME Local 1733 calculation, between 2007 and 2011, Memphis and Shelby County approved PILOTs worth $294 million.[157]

Despite these subsidies, during the recent recession Shelby County suffered some runaways: over a period of 15 months, the county lost at least nine businesses to neighboring areas such as Mississippi's DeSoto County.[158] In 2009, Memphis and Shelby County loosened their PILOT rules to allow PILOTs for retention projects.[159]

Although DeSoto County has attracted warehouse facilities that don't employ large numbers of workers, Memphis has managed to retain some major employers, but at a cost. For example, in 2012, International Paper gave the impression that it was considering relocating its headquarters and about 2,300 jobs out of Memphis, possibly to DeSoto County. Nervous local officials quickly offered IP an uncommon 30-year PILOT, but the deal was changed to a standard 15-year agreement in the face of public criticism.[160]

In 2010 Pinnacle Airlines turned down offers from Olive Branch, Mississippi and kept its corporate headquarters and 600 employees in Memphis. The city offered the company a retention package that included $3 million from the city economic development fund, a PILOT worth $5 million over 15 years, and 500 free parking spaces. Despite the aid, in April 2012, the company filed for bankruptcy protection.[161]

These inducements do not always prevent relocations. In 2010, Hamilton Beach Brands moved its distribution center from Memphis to Olive Branch, relocating 120 positions. The company received $2 million in property tax exemptions from DeSoto County and tax credits from the state.[162]

Despite the fact that the 2009 PILOT changes were adopted to satisfy it, McKesson followed through on a threat to move two of its six Memphis facilities to DeSoto County. The company received $4 million from Mississippi for infrastructure improvements and site preparation as well as city and county aid.[163] McKesson moved 300 jobs and offered its Memphis employees transfer rights to the new facility, even offering to pay their Mississippi state personal income taxes until they retire.[164] (Although Tennessee has no personal income tax, the many Memphians who work in Mississippi must pay that state's PIT.)

Tennessee embodies all the contradictions of the war among the states. Given its metro geography, it could be a voice of reason; instead it actively pirates jobs while letting its biggest city undermine its tax base trying to retain jobs.

Ocean State Lures Leave Rhode Island Taxpayers on the Hook

A big part of Rhode Island's approach to economic development has been to lure companies from Massachusetts. Over a decade ago, Rhode Island put up a big billboard just inside the state border on southbound Interstate 95 reading "This is Your Exit."[165] The billboard directed drivers to a website—www.mass-exodus.com—arguing the case for leaving the Bay State for the Ocean State.[166]

Some of the companies that respond to these pitches—and to the subsidy packages that often go along with them—end up being more of a bane than a boon to the Rhode Island economy. In 1999, pharmaceutical company Alpha-Beta went bankrupt despite having receiving $30 million in low-cost financing from the state.[167] Sailfirst.com, an online company for sailing enthusiasts, went bust shortly after getting subsidies from the state.[168]

In 2009, Rhode Island lured video game start-up 38 Studios out of Maynard, Massachusetts to Providence in what became one of the most notorious economic development deals in recent U.S. history. The Rhode Island Economic Development Corporation awarded the company, which was founded by former Boston Red Sox pitcher Curt Schilling, a $75 million loan to relocate 160 existing Massachusetts jobs. The deal promised to create 450 total jobs by the end of 2012. But in May of that year, things began falling apart, when 38 Studios missed a $1 million loan payment. Employees at the company went unpaid. Top executives fled. 38 Studios went bankrupt in June and laid off the remaining workers.

Since 38 Studios had little in the way of property, the state lacked much collateral to recover. An auction of assets netted only about $650,000, while the state remained on the hook for millions, some estimating as much as $100 million.[169] Later that summer, the Rhode Island state police, the attorney general's office, the U.S. attorney's office and the FBI launched investigations into the loan scandal. By November 2012, Rhode Island had filed suit against backers of the company, including Schilling himself, alleging conspiracy to defraud the state.[170]

If Rhode Island's approach to economic development proves anything, it's that putting lots of eggs in one footloose corporate basket is a very risky strategy. It is also a cautionary tale about the importance of vetting a deal fronted by a celebrity, not to mention a huge loss of resources that could be better spent on things that really matter to all businesses.

Job Blackmail: The Shadow Cast by Job Piracy

Sagging retail giant Sears Holding Corp. (successor to Sears Roebuck & Co.) touched off a multistate subsidy bidding war in 2011 when it threatened to move its headquarters out of Illinois. It had used this ploy before: in 1989 it got a package worth at least $168 million to relocate its headquarters from downtown Chicago to a far-flung suburb rather than another state. More than two decades later, that deal was expiring and Sears wanted more. After claiming that it was considering large offers from several states, Sears got Illinois legislators to approve a $275 million package to stay put. Along with the subsidies, a large part of which was to be paid for out of the personal income tax withholdings of some workers, the deal allowed Sears to lay off more than 1,000 workers before losing any part of the subsidy. Only days after the package was approved, Sears announced more store closings and headquarters layoffs.[171]

While it is one of the nation's most egregious examples of job blackmail, the Sears case is hardly unique. When companies are offered large subsidies to relocate across state lines, some will inevitably turn around and demand job retention subsidies from their home state to stay put. This "job blackmail" is the even darker flip side of interstate job piracy.

This race to the bottom is not always initiated by job poaching attempts from across state lines. The simple existence of piracy subsidies allows companies to shake down their home states, whether or not they are seriously considering a move. At a time of high unemployment, even the possibility that jobs might be lost to another state is too grave a threat for many politicians to ignore. Job blackmail episodes are thus on the rise.

Some states even use subsidy programs that are designed specifically to match funds offered as relocation subsidies from other states. In New Jersey, the Business Relocation and Retention Assistance Grant (BRRAG) can be awarded to companies that retain as few as 50 jobs, as long as the company has a subsidy offer from another state. In 2012, the state awarded 19 companies BRRAG retention contracts worth an estimated $73 million over the life of those contracts.[172] Ohio's Job Retention Tax Credit (JRTC) allows recipient companies in that state to claim a tax credit based on the value of their retained employees' personal income taxes. The program has been modified three times in recent years—first under Gov. Ted Strickland, and twice under Gov. John Kasich—to loosen eligibility guidelines and expand the credit. In 2011, the state issued $42 million in JRTCs to companies threatening to set up shop in other states.[173]

Those JRTCs were part of a wave of big state and local retention deals during Gov. Kasich's first year in office. For example:

- The Bob Evans restaurant chain, formerly based in south Columbus, moved to the nearby suburb of New Albany with local and state relocation and retention subsidies. It has been reported that the company confided to Columbus Mayor Michael Coleman that it intended to stay in Ohio while suggesting to the state that it was considering out-of-state locations. Ohio granted $17.4 million in retention subsidies.[174]

- American Greetings secured over $93 million in tax credits to move outbound within the Cleveland metropolitan area (from Brooklyn to Westlake). The company said it was considering a move to Illinois, even though that state, unlike Ohio, has a corporate income tax. Shortly after the deal was awarded, American Greetings announced that it would be laying off workers and delaying the construction of its new headquarters.[175] Whether or not the JRTCs will be used is uncertain.

- Marathon Petroleum was approved to receive up to $72 million in JRTCs.[176] The company was reportedly considering moving out of state but company officials said prior to the credits being awarded that the firm would remain in Findlay. Gov. Kasich also appointed Marathon CEO Gary Heminger to the board of JobsOhio, the state's new privatized economic development agency.[177]

In 2012 Kasich signaled a possible change of heart about the big retention giveaways. The governor stated: "Giving away the store and getting into bidding wars — I tell all CEOs now if that's what you think we're going to do, you're wrong, because we are not going to get into bidding wars with other states."[178]

Meanwhile in Illinois, Sears was not the only company playing the blackmail game. Citing the state's belated decision in early 2011 to raise its historically low corporate income tax rate (to help address a structural budget deficit), a number of large companies made public noises about relocating. In the following months, elected officials were stampeded into offering big retention packages.

For example, Motorola Mobility (now owned by Google) got over $100 million in special Economic Development in a Growing Economy (EDGE) tax credits that allow the company to keep worker personal income tax withholdings.[179]

Navistar, the truck manufacturer, wrested a $65 million package from the state. The Chicago Mercantile Exchange (CME) and the Chicago Board Options Exchange (CBOE) made similar threats to leave the state and relocate a 150-year-old commodities trading floor. Indiana and other states reportedly offered CME significant subsidies to relocate jobs. The Illinois legislature passed a special tax break just for CME and CBOE, allowing them to pay a much lower tax rate on electronic trading transactions.[180]

The Chicago Tribune documented that in 2011, the state inked 27 special deals with its EDGE tax credit program to create or retain jobs. At least five recipients had threatened to relocate, and those five companies are slated to receive over $230 million in subsidies over the next decade.

Oregon recently succumbed to similar pressures from a high-profile company threatening to take its job growth elsewhere. Gov. John Kitzhaber called a special one-day legislative session in December 2012 during which lawmakers passed a special tax break custom-tailored for Nike, Inc. The company cited a need for "tax certainty"—a guarantee that any reforms to the state's Single Sales Factor (SSF) method of tax assessment would not apply to it—before it could commit to expanding in Oregon.[181] (In states where a company has a large physical and employment presence, SSF significantly reduces the tax responsibility of companies that engage in multistate sales.) Nike is exempted from any changes to Oregon's corporate income tax for the next 30 years as a result of the special legislation.

States Already Know How to De-Monetize Job Fraud

As our case studies demonstrate, at the core of the economic war among the states is a fraudulent shell game. Public officials welcome "new jobs" that are not really new at all. The legislative fine print for many subsidy programs confers eligibility on jobs that are "new to the state," but in their public statements, public officials routinely give the impression that such jobs are absolutely new.

Sometimes, the jobs are not even new to current residents of the subsidizing state. And as long-term business census data reveal, the states obtain microscopic benefits despite very high costs.

This "new job" fiction enables subsidized companies to avoid paying their fair share of the costs for public services. That means all other businesses, as well as homeowners and wage earners, must either pay higher taxes, suffer poorer public services, or some of both. The shell game is dishonest and unfair, and it undermines states' foundational investments that benefit all employers.

Therefore, key to cooling state job wars is putting an end to this interstate job fraud. The states need to stop subsidizing jobs that are labeled as new simply because their location has changed. It turns out that the vast majority of states already know how.

Four-Fifths of the States Already Refuse to Pay for Intrastate *Job Relocations*

The concept of being honest about existing jobs is hardly new to the states. In fact, four-fifths of them already apply it to themselves: in 40 states, some major subsidy programs deny eligibility to *intrastate* job-relocation deals.

In December 2011, Good Jobs First released *Money for Something: Job Creation and Job Quality Standards in State Economic Development Subsidy Programs*, in which we graded 233 major incentive programs in the 50 states.[182] One of our safeguard-scoring criteria was whether a program effectively denies subsidies to the movement of existing jobs either within a state's own borders or from other states.

We found that 40 states have at least one program with such a ban, and 16 states have 3, 4 or 5—and we examined no more than 5 programs per state. If we had examined a larger sample, we would certainly have found many more intrastate subsidy bans.

Altogether, 96 of the 233 major programs—or 41 percent—have rules against subsidizing intrastate job moves. (For a full listing of the program names, see Appendix A.)[183]

The 40 states include: Alabama (1 out of 5 major programs examined), Colorado (1/4), Connecticut (3/5), Delaware (2/4), Florida (5/5), Georgia (3/5), Idaho (1/5), Illinois (4/5), Indiana (3/5), Iowa (3/4), Kansas (3/5), Kentucky (1/5), Louisiana (2/5), Maine (2/4), Maryland (4/5), Massachusetts (2/5), Michigan (3/5), Minnesota (1/5), Mississippi (4/5), Missouri (2/5), Montana (1/4), Nebraska (3/4), New Hampshire (2/5), New Jersey (1/5), New York (2/5), North Carolina (4/5), North Dakota (2/5), Ohio (3/5), Oklahoma (4/5), Pennsylvania (1/5), Rhode Island (2/5), South Carolina (2/5), Tennessee (4/5), Texas (2/4), Utah (2/5), Vermont (2/5), Virginia (4/5), Washington (1/4), West Virginia (2/5), Wisconsin (2/5).

That is, almost all of the states that we have spotlighted in this study protect themselves against job-shifting intrastate shell games.[184] While adopting a common-sense approach on relocations within their borders, most states abandon all rigor when it comes to jobs crossing a state line, even from neighboring states with whom they share commuters every morning.

At a time when so many states must make painful budget decisions, they can ill afford to keep bankrolling interstate job fraud. To guarantee fairness to all employers, we must ensure that all expenditures for job creation are honest and effective. Hence our recommendations:

Policy Option #1: No More Dishonest Labeling of Existing Jobs as “New”

To stop rewarding footloose companies that play interstate shell games, we recommend that states amend their incentive laws to deny subsidies for those existing jobs that a company proposes to move across a state line. In many cases, this would simply mean amending subsidy programs to remove three words—changing eligibility from jobs that are “new to the state” to ones that are “new.” We would also recommend a clear definition of “new” that covers existing employees and business functions, to avoid rule-gaming.

If a company wished to move and grow jobs that are actually new under the sun, a state could incentivize those if it so chose. It could treat a newly arriving company the same way it would treat an incumbent employer.

Given the fact that 40 out of 50 states already do this for one or more of their major incentive programs when the proposed relocation is *intrastate*, this is not a technically challenging suggestion. The only apparent challenge is political will.

In Appendix B, we catalog typical statutory language against intrastate relocations from a sampling of 15 incentive programs. Typical of the change we recommend could be the One North Carolina Fund:

Guideline 6.3: Net New Jobs:

Existing language: *For a project creating new jobs to be eligible to receive and retain a grant from the Fund, any new jobs used as the basis for an application should be new positions to the company's operation in the state and not jobs transferred from any existing North Carolina operations of the company or a related entity.*

New language could read: *For a project creating new jobs to be eligible to receive and retain a grant from the Fund, any new jobs used as the basis for an application should be new positions to the company's operation ~~in the state~~ and not jobs transferred from any existing ~~North Carolina~~ operations of the company or a related entity.*

Policy Option #2: No More Active Interstate Recruitment

We also recommend that states stop actively recruiting companies to relocate across state lines: no more direct solicitations, targeted relocation offers, billboards, ad campaigns, websites or other efforts specifically designed to poach jobs. By turning their attention away from poaching, states could devote more resources to those companies planning expansions or start-ups to create truly new positions.

Policy Option #3: A Possible Federal Role

Ideally, the job-creation shell game and the economic war among the states would be addressed by Congress under its Constitutional Commerce Clause powers. Unfortunately, Congress has never shown an inclination to do that. To the contrary, during the 2005-2006 consideration of the *Cuno* case by the U.S. Supreme Court, there was proposed legislation that would have enshrined the worst aspects of the war among the states into federal law.

The *Cuno* case itself resolved nothing. In *DaimlerChrysler Corp. v. Cuno*, the Supreme Court ruled that Charlotte Cuno and her fellow original plaintiffs from Toledo, Ohio lacked federal standing to bring the case, which had prevailed at trial and in the Sixth Circuit Court of Appeals. Cuno, a tiny grandmother, was livid after the Supreme Court heard oral arguments: she was insulted at the idea that she was not sufficiently harmed, given that her grandchildren's schools were so severely impoverished by Toledo's tax giveaways. Some of her co-plaintiffs had been physically displaced.

Informed by this history, we suggest a modest role, if any, for Uncle Sam. As we recently laid out in a column in the November 2012 issue of the American Planning Association's *Planning* magazine, strings could be attached to economic development funding that the federal government provides to the states. A precedent for this is the small share of federal highway funds that has been used as a "carrot" since the 1980s to encourage states to raise their legal drinking ages to 21 and thereby reduce highway fatalities.

Applying that precedent, a small portion of federal Department of Commerce funds could be held back from states until they agree to the two reforms recommended here: revising their incentive codes to restrict subsidy eligibility to truly new jobs and certifying that they have ceased direct poaching activities.

Appendix A:
List of Major State Subsidy Programs with Restrictions on Intrastate Job Shifting

State	*Program*
Alabama	Enterprise Zone Credit
Colorado	Enterprise Zone Program
	Enterprise Zone and Urban Jobs Tax Credits
Connecticut	Jobs Creation Tax Credit (aka New Jobs Creation Tax Credit)
	Urban and Industrial Site Reinvestment Tax Credit
Delaware	Blue Collar Jobs Tax Credits
	Delaware Strategic Fund
Florida	Capital Investment Tax Credit
	Economic Development Transportation Fund
	Enterprise Zone Program
	Qualified Target Industry Tax Refund
	Quick Action Closing Fund
Georgia	Job Tax Credit
	OneGeorgia EDGE (Economic Development, Growth and Expansion) Fund Program
	Quality Jobs Tax Credit
Idaho	New Jobs Income Tax Credit
Illinois	Economic Development for a Growing Economy (EDGE) Tax Credit
	Enterprise Zone Program
	IDOT Economic Development Program
	Large Business Development Assistance Program
Indiana	Economic Development for a Growing Economy (EDGE) Tax Credits
	Enterprise Zone Program
	Hoosier Business Investment Tax Credit (HBITC)
Iowa	Enterprise Zone (Business Only)
	High Quality Job Creation Program
	Industrial New Jobs Training Program (260E)
Kansas	Investments in Major Projects and Comprehensive Training Program (IMPACT)
	Kansas Economic Opportunity Initiatives Fund
	Promoting Employment Across Kansas (PEAK) Program
Kentucky	Kentucky Business Investment (KBI) Program
Louisiana	Enterprise Zones
	Quality Jobs Program

Appendix A: List of Major State Subsidy Programs with Restrictions on Intrastate Job Shifting

State	*Program*
Maine	Employment TIF
	Pine Tree Development Zones
Maryland	Job Creation Tax Credit
	Maryland Economic Development Assistance Authority Fund, MEDAAF 1 & 2, Significant Strategic Economic Development Opportunities & Local Economic Development Opportunities
	One Maryland Tax Credit
	Sunny Day Fund
Massachusetts	Economic Development Incentive Program
	Life Sciences Investment Tax Credit
Michigan	Michigan Economic Growth Authority (MEGA) Tax Credits
	Michigan's Advanced Battery Credits (MABC)
	Renaissance Zone Program
Minnesota	Business Development Public Infrastructure Grant Program
Mississippi	Advantage Jobs Incentive Program
	Jobs Tax Credit
	Major Economic Impact Act
	Rural Economic Development (RED) Credits
Missouri	Business Use Incentives for Large-scale Development (BUILD)
	New Jobs Training
Montana	Big Sky Economic Development Trust Fund
Nebraska	Customized Job Training
	Employment and Investment Growth Act
	Nebraska Advantage
New Hampshire	Community Development Investment Program (Investment Tax Credit)
	Economic Revitalization Zone Tax Credits
New Jersey	Urban Enterprise Zone Program
New York	Excelsior Jobs Program
	Industrial Development Agencies
North Carolina	Job Development Investment Grants (JDIG)
	One North Carolina Fund
	Tax Credits for New and Expanding Businesses (Article 3J Credits)
	William S. Lee Quality Jobs and Business Expansion Act (Article 3A)
North Dakota	Development Fund – PACE loans and Regional Rural Revolving Loan Fund
	New Jobs Training

Appendix A: List of Major State Subsidy Programs with Restrictions on Intrastate Job Shifting

State	*Program*
Ohio	Community Reinvestment Area (CRA) Program
	Job Creation Tax Credit
	Job Retention Tax Credit
Oklahoma	21st Century Quality Jobs
	Opportunity Fund
	Quality Jobs
	Training for Industry
Pennsylvania	Job Creation Tax Credit
Rhode Island	Corporate Income Tax Rate Reduction for Job Creation
	Enterprise Zone Tax Credits
South Carolina	Job Development Credits
	Job Tax Credit
Tennessee	FastTrack Job Training Assistance
	Headquarters Tax Credit
	Jobs Tax Credit
	Sales and Use Tax Credit for Qualified Facility to Support an Emerging Industry
Texas	Texas Economic Development Act (Ch. 313)
	Texas Enterprise Fund (TEF)
Utah	Economic Development Tax Increment Financing
	Targeted Business Tax Credits
Vermont	Economic Advancement Tax Incentives (EATI)
	Vermont Employment Growth Incentive (VEGI)
Virginia	Governor's Opportunity Fund (GOF)
	Major Business Facility Job Tax Credit
	Virginia Economic Development Incentive Grant (VEDIG)
	Virginia Investment Partnership (VIP) & Major Eligible Employer Grant (MEE)
Washington	New Jobs in Rural Counties and CEZ Tax Credit
West Virginia	Economic Opportunity Tax Credit
	Governor's Guaranteed Work Force Program
Wisconsin	Major Economic Development Program (MED)
	Transportation Economic Assistance Program (TEA)

Appendix B:
Examples of Rules Prohibiting Subsidies for Intrastate Job Relocations

Alabama

Enterprise Zone Credit

(2) A business may not have closed or reduced employment elsewhere in Alabama in order to expand into the zone.

Connecticut

Urban and Industrial Site Reinvestment Tax Credit

(9) "New job" means a job that did not exist in the business of a subject business in this state prior to the subject business' application to the commissioner for an eligibility certificate under this section for a new facility and that is filled by a new employee, but does not mean a job created when an employee is shifted from an existing location of the subject business in this state to a new facility.

Connecticut

Enterprise Zone and Urban Jobs Tax Credits

B) "new job" means a job that did not exist in the business of a taxpayer in this state prior to the taxpayer's application to the Commissioner of Revenue Services for such credit and that is filled by a new employee, but does not include a job created when an employee is shifted from an existing location of the taxpayer in this state to a service facility.

Florida

Qualified Target Industry Tax Refund

(f) Refunds made available under this section may not be expended in connection with the relocation of a business from one community to another community in the state unless the department determines that, without such relocation, the business will move outside the state or determines that the business has a compelling economic rationale for relocation and that the relocation will create additional jobs.

Florida

Economic Development Transportation Fund

Funds made available pursuant to this section may not be expended in connection with the relocation of a business from one community to another community in this state unless the department determines that without such relocation the business will move outside this state or determines that the business has a compelling economic rationale for the relocation which creates additional jobs.

Appendix B: Examples of Rules Prohibiting Subsidies for Intrastate Job Relocations

Georgia
Job Tax Credit
new jobs that are transferred during years one through five from their original location to another county or less developed census tract area may not earn credits after their transfer unless otherwise approved by the commissioner of community affairs.

Georgia
OneGeorgia EDGE (Economic Development, Growth and Expansion) Fund
A project is not considered a competitive project when the competition involves only the relocation of an existing company from one Georgia community to another Georgia community.

Georgia
Quality Job Tax Credit
A "new quality job" is not a job that is or was already located in Georgia

Iowa
Enterprise Zones
59.6(1) Requirements. A business which is or will be located, in whole or in part, in an enterprise zone is eligible to be considered to receive incentives and assistance under the Act if the business meets all of the following: a. No closure or reduction. The business has not closed or reduced its operation in one area of the state and relocated substantially the same operation into the enterprise zone. This requirement does not prohibit a business from expanding its operation in an enterprise zone if existing operations of a similar nature in the state are not closed or substantially reduced.

Indiana
Hoosier Business Investment Tax Credit
Sec. 19. A person is not entitled to claim the credit provided by this chapter for any jobs that the person relocates from one (1) site in Indiana to another site in Indiana. Determinations under this section shall be made by the corporation.

Kentucky
Business Investment Program
The authority shall not approve an economic development project that otherwise meets the requirements of this subchapter if the economic development project will result in the replacement of facilities existing in the state except as provided in this section.

Appendix B: Examples of Rules Prohibiting Subsidies for Intrastate Job Relocations

Maine

Employment Tax Increment Financing

"Qualified employee" does not include an employee who is shifted to a qualified business from an affiliated business. The commissioner shall determine whether a shifting of employees has occurred.

North Carolina

Article 3K Tax Credits

Transferred Jobs. Jobs transferred from one area in the State to another area in the State are not considered new jobs for purposes of this section. Jobs that were located in this State and that are transferred to the taxpayer from a related member of the taxpayer are not considered new jobs for purposes of this section.

North Carolina

Job Development Investment Grant

New employee. A full time employee who represents a net increase in the number of the business's employees statewide.

North Carolina

One North Carolina Fund

For a project creating new jobs to be eligible to receive and retain a grant from the Fund, any new jobs used as the basis for an application should be new positions to the company's operation in the state and not jobs transferred from any existing North Carolina operations of the company or a related entity.

Endnotes

1 The economic war among the suburbs is also a serious problem that Good Jobs First explored most recently in *The Thin Cities* (2006) and *Paid to Sprawl* (2011). This study, although it includes behavior of some local governments, is focused on corporate relocations across state lines.

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4 This pessimistic trend finding is probably rosy because of three aspects of Conway Data's methodology. First, it has consistently used the same three criteria for including any given deal in its list: 50 or more jobs, $1 million or more investment, and/or 20,000 squarefeet. With no inflation factor for the dollar-based criterion, the database should capture more projects over time, holding the economy constant. Second, about five years ago, Conway Data added corporate leases as eligible projects (in addition to new construction), using the same definition thresholds. That should mean the number of reported projects in recent years would be higher than under the previous criteria. Finally, the annual numbers we chart here are necessarily "snapshots" of announced projects, and invariably include some that either fail to materialize or get downsized. Available clawback history suggests that the share of unrealized projects grows during recessions (consistent with business cycle norms). These data include all projects involving either new construction of space, and/or new use of space, and/or "new jobs" in that space, and do not distinguish between truly new jobs and relocated jobs—interstate or intrastate. Although Conway Data/*Site Selection* also publish an annual directory of state economic development incentive programs (each November), the New Plant Database does not collect project-specific incentive information. Sources: Conway Data, Inc's New Plant Database (as culled from past March issues of *Site Selection*, 1997-2012, at www.siteselection.com), and telephone interview with *Site Selection* editor Adam Bruns, January 9, 2013.

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[183] That share would be larger if we were to exclude programs where such a rule could hardly apply, such as the 16 film production tax credits we graded. The same can be said for extraction-based subsidies that are tied to mines or drilling sites. We also note that about two thirds of the enterprise zone programs we graded deny subsidies to intrastate job shifts, even though honest advocates for such zones admit they are largely intended to move existing economic activity into areas that are depressed.

[184] Only two of the 96 programs—Delaware's Blue Collar Jobs Tax Credit Program and New Hampshire's Community Development Investment Program (Investment Tax Credit) —have provisions written in a way that could bar an interstate job shift.