★ Chapter One ★

The Tax Dodgers Are Coming! The Tax Dodgers Are Coming!

The Great American Jobs Scam is actually a collection of scams that have evolved over the past half-century and especially over the past three decades. These scams both rely upon—and reinforce—several factors. They rely on taxpayer confusion about the causes and effects of job creation. These scams thrive when the purported benefits—especially jobs benefits—of tax cuts and other subsidies are played up, so companies must exaggerate the positive impact while the business basics of location behavior are played down. They rely on taxpayer costs being kept vague, understated, or hidden. They need program rules to stay loose and unaccountable so that when a company fails to deliver, it suffers no consequences. They flourish when governments fail to monitor the real outcomes on jobs, wages, and other benefits. And most of all, these scams are built upon a corporate-controlled definition of "competition" that prevents government officials from cooperating in taxpayers' best interests.

Scam #1: Job Blackmail or How to Get Paid to Do What You Planned to Do Anyway

A textbook chapter in the Great American Jobs Scam unfolded in 1995 in Massachusetts. All the characters from Central Casting were there: the high-profile company that threatens to leave unless it gets big tax breaks; the business lobby; the business lobby's "rented economist" whose dire prediction or rosy forecast gets far more attention than the sober findings of a government commission; the former gubernatorial aide-turned-lobbyist; and even a union of workers convinced—for the moment at least—that a big tax break will secure their jobs. And oh yes: *lots* of rhetoric about jobs, jobs, jobs, with loopholes hidden in the fine print.

Lexington-based defense contractor Raytheon Corp.—then the state's biggest private employer—triggered this row of dominoes in February 1995 by threatening to move its defense operations out of Massachusetts unless it got 12 tax cuts and utility deals from the state and concessions from its unionized workers. With the end of the cold war and sharp cuts in Pentagon procurement spending, the company had been downsizing; almost a third of its remaining 60,000 jobs were in the Bay State. To make sure everyone got the message, Raytheon's chief defense executive had lunch in Nashville with the governor of Tennessee, where the company already had three plants.[1]

Of the tax breaks Raytheon originally sought, the most costly was a new law called Single Sales Factor. SSF would change the way a multistate company determines how much of its profits are to be taxed in Massachusetts. For companies like Raytheon that have a lot of property and payroll in the state but sell most of their products outside the state, SSF results in a huge income tax cut (see chapter 4 for more). Raytheon estimated SSF would cut its income tax bill by three-fourths, from $28.1 million a year to $7 million.[2]

But Raytheon's first push for the tax cuts came across as "an awkwardly attempted holdup," as one journalist put it, and the company gained little support at the capitol on Beacon Hill.[3] Other big manufacturers didn't join in, and newspaper editorialists called it blackmail.[4] Neither the Republican governor, William Weld, nor the Democrats who controlled the legislature backed Raytheon. So the company hired a new lobbying team, including Democratic operative John Sasso, who had been chief secretary and presidential campaign aide to former governor Michael Dukakis.

Sasso and the new lobbying team engineered a public relations campaign that turned a corporate tax cut into a jobs program. Suddenly it wasn't the Raytheon tax cut bill; it was the "defense initiative" to help save 117,000 defense jobs in the state—well-paying blue-collar jobs that enabled people without a college education to make a decent living. Suddenly statistics abounded about the positive ripple effects of Raytheon's payroll and the state's high cost of doing business. "The heart and soul of our defense business" is here, a company executive wrote in a masterly op-ed article; but, he lamented, "[we have a] 20 percent cost gap created by being in Massachusetts."[5]

Sasso's connections reportedly helped the company formalize the support of the International Brotherhood of Electrical Workers (IBEW) Local 1505, which represented most of Raytheon's hourly employees in Massachusetts. That, in turn, brought the state AFL-CIO on board. Through the summer of 1995, Sasso and the Raytheon team honed the message; their efforts included a series of private meetings with legislators. The mantra that this was a blue-collar jobs bill resonated especially well with key leaders, such as House Speaker Charles Flaherty, a Democrat. Even those who had opposed it at first came on board. By September, Governor Weld had his line down pat: This is "a jobs package, not a Raytheon package."[6]

The demand for SSF quickly expanded from defense contractors to all manufacturing companies. The state's business lobby, Associated Industries of Massachusetts (AIM), went into high gear. It pointed out that the state had lost a third of its factory jobs in the last decade and was lagging in new capital investment.[7]

Raytheon hired three studies to boost its campaign: two by academics and another by DRI/McGraw-Hill, a prominent economic consulting firm (now Standard & Poor's/DRI). [8]

The DRI/McGraw-Hill study said that "[e]nactment of the defense initiative would save the jobs that are today at risk, and would create a substantial number of new jobs as well." But it used two dire scenarios for its baseline numbers: the impact on the state economy if Raytheon pulled 10,000 of its jobs, and the impact if all of the prime defense contractors in the state pulled 50,000 jobs. Setting the bars so very low and then assuming the tax cuts would save all the jobs at risk, the study found positive job benefits from SSF. However, DRI/McGraw-Hill refused to disclose its economic model, saying it was proprietary. And the vast majority of the projected job benefits consisted of *saved* defense jobs and ripple-effect jobs, not newly created jobs.[9]

The company and its allies repeatedly recycled the DRI/McGraw-Hill study findings, upstaging another study—staffed by economists at the Federal Reserve Bank of Boston—that found Massachusetts' business tax burden to be very average.[10]

Was it plausible to assume the tax breaks would save 100 percent of the jobs? Raytheon never made such a pledge, and AIM (the business lobby) was quite frank about the prospects for defense jobs. "Will the Single Sales Factor for Defense Firms Promote Job Growth?" an AIM fact sheet asked. "It is extremely doubtful. This proposal may help Massachusetts to retain a portion of its share of the defense industry, but there is no reason to believe that the federal government will be increasing its defense procurements in the foreseeable future." In other words, Pentagon demand would determine how many jobs there would be.[11]

Raytheon's political-style campaign peaked in November, when the SSF bill passed both houses of the legislature by large margins. Defense contractors got the whole break as of 1996; other manufacturers got it phased in over five years.

The assumption that the tax breaks would save all of the Raytheon jobs quickly proved wrong. In May 1996—just five months after SSF took effect—the company reportedly offered buyouts to 4,400 of its hourly employees in Massachusetts.[12] By January 1998—two years after SSF took effect and about three years after Raytheon first threatened to leave—the company had reduced its Massachusetts headcount by 4,100 people or 21 percent. Having merged with or acquired three other companies, Raytheon would restructure.[13]

The 1995 law creating SSF in Massachusetts had a provision that was supposed to make sure companies that got the tax break didn't lay off lots of people. But the law had two big loopholes. First, it said a company using SSF had to sustain its Massachusetts *dollar payroll, not its headcount,* at a minimum of 90 percent of 1995 levels through 1999. But the law did not account for wage inflation, and since it was tied to dollars, not workers, Raytheon was free to lay off lower-paid production workers and replace them with a smaller number of higher-paid white-collar workers and still meet the 90-percent payroll rule.

By mid-1999, Raytheon had shed another 1,600 Bay Staters, and union members bore the brunt: IBEW Local 1505 membership had shrunk by more than 40 percent. Now the workers felt betrayed. They had testified in favor of SSF in 1995, agreed to the 1996 buyout offer, and suffered a big layoff as well in 1996; now entire product lines were leaving. The state AFL-CIO president Robert Haynes said Raytheon had reneged on its 1995 deal. Barry Richards, a Raytheon employee for 21 years, said, "Ever since [SSF] passed, they have done nothing but decimate our ranks."[14]

The unions backed legislation to strip the company of the tax break unless it met a job-retention rule tied to headcount instead of payroll. Quoting all of the company's 1995 rhetoric about jobs, they said it was time to fix the loophole. But Raytheon said it was in compliance. "We never, ever offered any guarantees of specific employment numbers," the company's CFO said.[15] Despite all the rhetoric about jobs, "Raytheon never promised not to lay people off," recalled state representative James Marzilli, adding that he tried to get company executives to make such a pledge during hearings, but they would not.[16]

The proposal to fill the jobs loophole was defeated, and when 1999 ended, Massachusetts manufacturers entered SSF heaven: they got to keep taking the big tax cut year after year—but were no longer obligated to maintain even 90 percent of payroll. In other words, the job benefits were temporary; the taxpayer costs became permanent.

Lobbying records later revealed that the 1995 campaign cost Raytheon $573,539, including $107,972 to Sasso and $76,796 to DRI/McGraw-Hill.[17] For this, they got a tax break the company said at the time would save it $21 million a year—an astronomical, irresistible rate of return.[18]

Scam #2: Create a Bogus Competitor

Companies often know where they want to go (or stay), but they create a bogus competitor in order to "whipsaw" locations against each other and get more subsidies from the place they intended to go to all along.

A retired North Carolina construction executive who had used this scam admitted during a lawsuit deposition:

> I hate to give the example, but we decided very early in the game we were going to locate somewhere in the Winston-Salem/Greensboro area and narrowed it down to Kernersville rather rapidly; but spent a lot of time in Siler City and Asheboro and other communities hearing their story, primarily to use as a leverage to get all we could out of Winston-Salem. Now I give you that as a local example. But a more recent one—in Dickson, Tennessee, we had about ten west Tennessee municipalities chasing us with all kinds of offers; although we knew through the whole process it was going to be Dickson. And it was unfair and probably, as bad as it sounds, we used the others to get what we could out of where we were going in the first place. . . . you know, I've been around it a long time; but to me it's the process. Usually, you know early where you are going, and you use your leverage.[19]

The same game may have been used in a high-profile "retention" episode, in which a state granted subsidies even though information leaked suggesting it was all a bluff. Marriott International, Inc., the huge hotel chain, played Virginia against Maryland from late 1997 to mid-1999. It said it might move its headquarters with about 4,000 employees from Bethesda, Maryland (a suburb of Washington, DC) to suburban Virginia.

Some were skeptical that Marriott was really serious about Virginia. Commuting from Maryland into Northern Virginia is tedious because so few bridges span the Potomac River, and four-fifths of the headquarters employees lived in Maryland—including two-thirds of its highest-paid executives.[20] Two Virginia counties offered packages worth about $12 million and $17 million, plus possible sales tax breaks and the potential for a cash grant from the "Governor's Opportunity Fund." (Some states give governors the ability to make cash grants as "deal closers"; I think of these more as "photo opportunity funds.")[21]

Maryland and Montgomery County officials had to counter. Who could afford to become known as the governor or the county executive who lost Marriott? They mounted an offer of multiple subsidies estimated at $49 million to $74 million, depending on the company's future growth. The package included "Sunny Day" funds, training funds, state and local tax credits, and County Economic Development Fund loans.[22] Marriott accepted the bid at a March 1999 press conference. The Maryland General Assembly would officially enact the package in about a month.

But then came a glitch. Jay Hancock, an investigative reporter at the *Baltimore Sun*, went to Richmond and read the Virginia files. A Marriott executive had phoned a senior Virginia official a month before the Maryland press conference—to say the company wasn't moving. The story's headline: MARRIOTT USED VA. AS A RUSE TO RAISE MD. BID.[23] The Virginia official noted: "He expects an agreement to be ma[d]e and they will stay in Maryland. He ask[ed] me to keep this confidential so that Maryland will not start to back off if they feel we are no longer a competitor. To me this confirms that they were merely using us as leverage."[24] Indeed, the files indicate that the Virginia officials had long been skeptical.[25]

The *Baltimore Sun* bombshell caused much gnashing of teeth in Annapolis, where some legislators wondered about the company's ethics and the state's competence. Despite the revelations, they passed the $49 to $74 million package for Marriott. "It's terrible public policy to throw money at businesses to get them to stay in the state or locate here," said state senator Brian Frosh. "It's an invitation for every other Maryland business to say, 'Stick 'em up.'"[26]

Scam #3: Payoffs for Layoffs or How to Collect Taxpayer Subsidies While Downsizing

Whether you look at particular programs, cities, or states, it's not unusual to find companies that have received subsidies and then, instead of creating jobs, actually laid people off.

New York City must hold the record for such episodes, though it is hardly alone. One study of 80 companies that had received "retention" subsidies from the Big Apple found that at least 39 had later announced major layoffs, or they had entered into large-scale mergers or put themselves up for sale—events that usually trigger mass layoffs.[27] A detailed analysis of 10 subsidized companies found they had a total loss of more than 3,000 jobs.[28]

Bank of America received two "job retention" subsidies from New York City, in 1993 and in 2004. The 1993 subsidy was given to induce the bank to move employees into the World Trade Center following the 1993 bombing. In exchange for at least $18 million in benefits, the bank promised to retain at least 1,700 jobs in Tower One for 15 years. Instead, it laid off at least 800 people in 1997 after merging with Security Pacific National Bank. This was such a severe drop in employment that the city canceled the subsidy in 1998, but didn't require Bank of America to refund any past subsidies.[29]

After it was displaced by the attacks of September 11, 2001, Bank of America won a new subsidy in 2004 for the consolidation of several offices into a new headquarters building in midtown Manhattan. The deal is supposed to retain 2,995 jobs and create as many new jobs over 25 years. The state and city offered a total package of $82.6 million. The Bank also got $650 million in triple-tax-exempt "Liberty Bonds," special low-interest loans enacted for New York City following the September 11 attacks. But shortly after the deal closed, Bank of America merged with Fleet Bank (which had also received an NYC job-retention subsidy). The new entity announced it would cut a total of 17,000 jobs nationwide. The overall job impact on New York City was unknown as of late 2004.[30]

Getting payoffs for layoffs has played out differently for IBM in upstate New York. In 2000, the company received a subsidy package of at least $659 million for the construction of a new microchip plant in East Fishkill, apparently the largest subsidy package ever granted in New York State. About $475 million, or three-fourths of the subsidy, came from New York's "Empire Zone" program, meaning that the plant would operate nearly tax free for perhaps 10 years, thanks to wage tax credits, investment tax credits, job creation tax credits, property tax abatements, and sales tax exemptions—even something called a "tax reduction credit."[31]

A typical enterprise zone program is limited to areas that are hurting economically. But East Fishkill was hardly depressed; in 2000, its unemployment rate averaged only about 3 percent. So why had parts of East Fishkill and surrounding Dutchess County been declared an Empire Zone? Because of an obscure change made to the Empire Zone law as a direct result of IBM announcing huge layoffs in the area!

In 1993, IBM had laid off more than 7,000 people in the Hudson Valley, about a third of its workforce there.[32] In response, the New York State legislature soon amended its zone program, adding new eligibility criteria for "sudden and severe disruptions." The new criteria said that even if an area had below-average unemployment, if there were major layoffs or were likely to be major layoffs within three years, the area could become a zone. Governor Mario Cuomo specifically referred to the IBM layoffs in his approval message.[33]

Seven years later, in a perverse reward for its own mass layoffs, IBM cashed in.

Scam #4: Take the Money and Run

Call centers—offices where people make outbound calls trying to sell things or receive inbound calls for customer service—are a major source of employment in the United States. Trade associations claim they account for about three million jobs.[34] They are often touted for their job creation in small cities and rural areas. Requiring inexpensive equipment that takes little time to set up, call centers can create jobs quickly, especially now that fiber-optic telephone lines are more common. But they can also leave town just as fast.

Tampa-based Sykes Enterprises Inc. operates call centers in the United States and abroad. The company has a widespread history of receiving subsidies, typically in small cities or rural areas. Indeed, a company vice president once said: "Every one of our locations is a result of some incentive plan. If a community is inviting Sykes to build a call center, they are expected to deed the land for two call centers to us, and give incentives of at least $2.5 million."[35]

The trouble is, employment in the facilities fluctuates a lot, and the company has closed many of them.

In Greeley, Colorado, Sykes announced a new center in 1994, with subsidies from state and local governments totaling about $915,000—for six acres of land, site improvements, training grants, a no-interest loan, and local tax and fee waivers. Employment later peaked at 580, but in January 2002, Sykes announced it would close—and with that closure, 400 jobs were lost.[36]

In Klamath Falls, Oregon, Sykes announced a planned center in 1995. It received $800,000 in cash, 52 acres of land, $250,000 worth of road construction, and a three-year property tax exemption. It was projected to generate 432 jobs, but peaked higher, at 650. By late 2003, however, employment was down to 80 workers, and those were laid off in early 2004.[37]

Bismarck, North Dakota, approved a package for Sykes in 1995 that included up to $2 million from Bismarck's "Vision Fund," 18 acres of city-owned property, utility breaks and other concessions, plus a five-year property tax exemption. In 1996, the state even gave Sykes a five-year exemption from state corporate income taxes. A second Bismarck center was announced in early 1997, subsidized by $2 million from the city's "Vision Fund." In 1998, public opposition to a third city offer—for free land, improvements and another $2.5 million—caused Sykes to drop plans for a third Bismarck call center. In January 2002, the company closed one of the centers, transferring jobs to the other, and in May 2002 Sykes said 316 more jobs would be lost. By August 2003, layoffs reduced employment at the surviving Bismarck call center to about 150.[38]

The farm town of Milton-Freewater, Oregon, borrowed $2.2 million in 1998 to make a $2.7 million cash grant to Sykes for 400 projected jobs. The city also provided free land, utility services, and tax credits, plus $1 million in state funds for road improvements. Businesses just across the state line in Washington even chipped in $200,000 in private funds. The facility eventually employed almost 500 people, but in May 2004 Sykes closed it and terminated the 264 remaining jobs. (An unexpected contract caused the facility to reopen later in 2004 with a small crew.)[39]

Manhattan, Kansas, and the state of Kansas offered Sykes a subsidy package of about $6.2 million in 1998 for an estimated 432 jobs. From the city came a $2.6 million cash grant, free land, $500,000 for site improvements, and property tax reductions for five years. The state provided $550,000 from an "Economic Opportunity" fund, enterprise zone tax breaks worth nearly $1.8 million, and a project and training grant of $800,000. In June 2004, the remaining 256 workers lost their jobs when Sykes moved the work to Asia and Latin America. The Manhattan plant closed only six months after the enterprise zone tax breaks expired.[40]

In 1996, business leaders in Hays, Kansas, contributed $1 million of their own money to gain a Sykes call center, on top of $2.35 million and 20 acres of free land provided by state and local government. As many as 650 new jobs were anticipated. The city of Hays even agreed to repay the state's $600,000 contribution if the company failed to meet minimum job creation targets. However, neither private sector nor government support could keep the Hays center open, which employed 370 people in August 2003. After Sykes closed the center in 2004, the customer service company that took over its Hays facility had trouble recruiting potential workers made insecure by their experience with Sykes.[41]

In Ada, Oklahoma, Sykes opened a center in 1999 with about 440 jobs after the city gave it $2.5 million in a cash grant plus land. But in January 2004 Sykes announced the Ada center's closure, with the loss of more than 400 jobs.[42]

Scottsbluff, Nebraska, gave Sykes $1 million from its federal Community Development Block Grant and $500,000 in local funds in 1999 to subsidize construction and infrastructure. After peaking at 393 jobs in late 1999, the Scottsbluff center was closed in 2002 with 240 layoffs.[43]

Hazard, Kentucky, helped Sykes in 1999 with a package of about $4 million, mostly state training money, for a potential 432 jobs. The state also spent $6 million on the Coalfields Business Park, where Sykes located. Employment peaked at 650 in 2001, but the facility was closed in late 2003, with the loss of 393 jobs.[44]

Pikeville, Kentucky, provided Sykes with almost $4 million from local funds in 1999, mostly for training, plus infrastructure and site preparation. The company also received a five-year property tax abatement. Sykes closed the facility in April 2004, with the loss of 324 jobs. Pikeville city manager Donovan Blackburn was bewildered: "We put together a lucrative incentive package for Sykes. And then when the package ended, they just ran."[45]

In 2000, Eveleth, Minnesota, provided Sykes with a $3 million cash grant, plus $1 million worth of site preparation improvements and 22 acres of free land. Employment never exceeded 300 at the 432-seat facility, and Sykes announced it would close the facility in

2002, with 200 layoffs. Matt Sjoberg—then an official of a Minnesota regional development agency, Iron Range Resources—said, "Sykes came in. They tried to make a go of this. They put the money in their back pocket, and they ran."

Sykes's 2000 subsidies from the city of Palatka and Putnam County, Florida, included $3 million from the County, a five-year property tax exemption, and 22 acres of free land. About 200 workers lost their jobs when Sykes closed the facility in the fall of 2004. Local attorney Timothy Keyser wasn't surprised: "That seems to be how that corporation makes its money. They dangle jobs to jurisdictions that pay them tax money."[46]

The Sykes call center in Marianna, Florida, was expected to employ over 560 people within three years of its 2000 opening. Jackson County and Marianna provided $2.1 million in subsidies, and the state another $2 million for land and infrastructure. In July 2004, Sykes announced the center would close, with 266 remaining workers laid off. In a rare show of generosity, Sykes donated $1 million worth of land and some equipment to Marianna in late 2004.[47]

Do we detect a pattern here?

Many of the U.S. closures coincided with Sykes's growth offshore. In late 2004, the company said it had 10,000 workstations in low-cost countries such as Costa Rica and the Philippines (up 82 percent in the last year) compared with 2,700 workstations in the United States (down 45 percent)—and only half the domestic stations were staffed.[48]

Scam #5: Exploit the War Among the States or How the Auto-Plant Sweepstakes Got Used to Blunt Trade Reform

James "Big Jim" Thompson, then-governor of Illinois, stands about six-foot-six. So it must have startled Mitsubishi Motors president Toyoo Tate when Thompson got down on his hands and knees to spread out a big map of Illinois. The lanky governor spoke of his vision for an "auto corridor" along Route 51 from Bloomington-

Normal to Rockford—if only Mitsubishi would agree to choose Illinois for its Diamond-Star auto assembly plant, a joint venture with Chrysler.

"I thought at first that President Tate might think I was violating the normal rules of reserve governing Japanese business relationships by crawling around his floor. Yet I wanted him to see that we really cared about their plant, our highway and our state," Thompson explained. The resulting 1985 subsidy deal weighed in at $249 million—the biggest in Illinois history and then the biggest package ever given to an auto assembly plant in the United States.[49] The factory was part of the first big wave of foreign direct investment in U.S. "transplants," or auto-assembly factories, by Japanese automakers.

But Thompson's Diamond-Star deal caused some other midwestern officials to roll their eyes; I remember one Michigan official clucking condescendingly. There were other forces at play that explained why so many transplants were suddenly cropping up—forces that were obvious to people in the Motor City who knew auto politics. The strong yen made Japanese labor just as expensive as U.S. labor. But the really big threat was protectionism: public resentment at rising auto imports prompted the U.S. House of Representatives to pass legislation in 1983 that would have required certain levels of domestic content in cars sold here. The U.S. Senate debated it the following year.

To blunt the threat of domestic content legislation, the Japanese automakers sought to curry as many votes as they could in the Senate. Hence the tidy geographic spread of their early siting choices, including midwestern states with lots of United Auto Workers: Honda in Marysville, Ohio (announced in 1980); Nissan in Smyrna, Tennessee (1980); Toyota (with General Motors) in Fremont, California (1983); Mazda in Flat Rock, Michigan (1984); Mitsubishi (with Chrysler) in Illinois (1985); Toyota in Georgetown, Kentucky (1985); Subaru-Isuzu in Lafayette, Indiana (1986); and Honda in East Liberty, Ohio (1987).[50]

Authors Martin and Susan Tolchin noted: "There was nothing secret about these strategies: The Japanese encouraged their companies to invest abroad as enlightened policy, designed to stave off protectionism and save jobs."[51] Yet all but one of these plants were subsidized to the tune of eight or nine figures, even though the Japanese had strong political and financial reasons for building them no matter what.[52] It was a marriage of mutual convenience. The recessions of 1982 to 1983 and 1986 humbled the Rust Belt; governors planning to get reelected had to look aggressive on jobs. And the Japanese needed to quiet calls for a domestic content law and cushion themselves from the high relative labor costs created by the strong yen.

However, when the threat of protectionism passed—evinced by Bill Clinton's election in 1992 and the passage of NAFTA in 1993—foreign automakers largely steered clear of the Midwest—with all of its United Auto Workers members—and headed for "right to work" states: BMW in Spartanburg, South Carolina (1992); Mercedes-Benz in Vance, Alabama (1993); Toyota in Princeton, Indiana (1995); Honda in Lincoln, Alabama (1999); Nissan in Canton, Mississippi (2000); Hyundai in Montgomery, Alabama (2002); and Toyota in San Antonio, Texas (2003). All of these assembly plants received nine-figure subsidy packages. And that doesn't begin to count the 450-plus so-called subplants or foreign-owned auto parts plants, which have also been routinely subsidized.

My point here is not to bash Japan. In 2003, the United States ran automotive trade deficits with 11 countries, and our total auto trade deficit far exceeds its level in 1983 when the House passed a domestic content bill. Asian and German companies, with the help of U.S. site location consultants, have played our state-eat-state system like a fiddle, the same way General Motors played 30 states against each other in 1985 with the Saturn assembly plant it sited in Spring Hill, Tennessee.

My point *is* to say that we are nuts to allow this "war among the states" to be exploited in a way that influences our national trade policies. Our commodity trade deficit is now way over half a *trillion* dollars a year. U.S. taxpayers gave huge subsidies to foreign-owned factories that were instrumental in blunting trade reforms like domestic content requirements long before NAFTA.

And what became of Big Jim's vaunted Illinois "auto corridor"? Did Illinois capture oodles of ripple-effect jobs from Diamond-Star for its $249 million subsidy? Not quite. The auto corridor never developed. Since 1985, the Prairie State has *lost* auto parts jobs despite gaining the assembly plant.

Scam #6:
CAPCOs: Beaucoup Ventured, Little Gained

How'd you like to put your money into a special state-sponsored fund, packaged to look like a venture capital fund for start-up businesses, and get a handsome rate of return on your investment—even if the fund does a lousy job of helping small businesses? Or, on the other side of the table, how'd you like to collect management fees and financing charges from the fund—and lend only half the money to small businesses?

Welcome to the magical world of Certified Capital Companies, or CAPCOs—an outrageous subsidy gimmick cooked up by Louisiana insurance lobbyists in the early 1980s that has quietly mushroomed to a total cost of more than $1.5 billion in tax credits in nine states and the District of Columbia.[53]

The states' rules vary a bit, but here is how CAPCOs basically work. An insurance company invests money in a CAPCO. For doing that, it will get a dollar-for-dollar tax credit from the state worth 10 percent of its investment every year for 10 years. That credit reduces the tax the insurance company pays on the premiums for policies it sells in the state.

Then the insurance company negotiates with the CAPCO for a guaranteed rate of return on the cash it invests in the CAPCO. To ensure that return, the CAPCO typically puts a huge chunk of the money—say 40 percent—into low-risk investments like treasury bonds. That money is used to pay the insurance company an attractive return.

That leaves the CAPCO with half or more of the money, so it has every reason to play it safe as it invests in qualified small companies, while collecting management fees and finance charges. That means mostly low-risk, short-term loans, preferably to the largest, safest companies the rules allow—not to young, risky start-ups. Once the CAPCO has lent out 100 percent of the original amount (by relending money from repaid loans), it becomes deregulated and can pay out profits.[54]

There are no job-creation requirements on CAPCOs, just requirements that they invest certain percentages of the money in a certain number of years. Most only require CAPCOs to invest half the money in qualified small businesses. Unlike private-sector venture capital funds, whose investors are at risk and whose fund managers have fiduciary obligations to the investors, in a CAPCO the state basically absorbs all of the risk and the CAPCO operator has no comparable obligation to the state.

However, CAPCOs are lucrative for a select group of operators. As three academic researchers have documented, a small group of corporations has lobbied for CAPCO laws and benefited the most from the program.[55] *Governing* magazine's Christopher Swope traced $1 billion of the insurance company tax credits that states have given to CAPCOs so far. He found that more than half went to just three corporations: Advantage Capital Partners, at least $261 million; Newtek Business Services' subsidiary The Wilshire Group, at least $140 million; and Stonehenge Capital Corp., at least $226 million.[56]

Swope even found that one of these companies, Newtek/ Wilshire, uses the CAPCO money to bankroll its own subsidiaries (they process credit-card transactions and provide other financial services). In 2002, CAPCOs provided 88 percent of Newtek's revenue.[57]

State reviews of CAPCOs have repeatedly found big problems. Studies in New York and Florida, which have authorized $580 million in tax credits, found that companies getting CAPCO loans actually lost jobs.[58] A Colorado audit found that out of $100 million, the CAPCO had invested almost half in low-risk vehicles such as treasury bonds, then spent $11 million setting up its offices and another $4 million on management fees—so that only about a third of the money went for the program's intended purposes.[59] CAPCOs have also provoked heated debates in Louisiana, Missouri, Florida, and Wisconsin.

Some analysts who have tracked CAPCOs for years have decided they are such a scandal that the analysts have actively opposed their proliferation. George Lipper, who studied Iowa legislation, calls them a "raid on state treasuries." Julia Sass Rubin, a Rutgers professor, says they are "a crummy deal for taxpayers." Colorado state treasurer Mike Coffman is more blunt: "It's a scam."[60]

Scam #7: Pirate Thy Neighbor's Jobs

The 1990 to 1991 recession lasted longer for parts of California, especially the Los Angeles basin, as the end of the cold war prompted aerospace-defense cutbacks. Then the City of Angels suffered further, from the civil disturbance following the Rodney King police-abuse acquittal verdict in 1992. Economic development officials in the West smelled blood: a dozen states and as many cities set up aggressive job-piracy efforts that especially targeted manufacturers, complete with recruitment fairs, "trade offices," and targeted mailings.[61] The piracy got so bad, the city's development director complained to the secretary of HUD that he suspected federal monies were involved in some of the recruitment offers.[62]

This episode of kicking one's neighbor when she is down is especially egregious, but it is hardly unique. Indiana, Ohio, and Michigan have had recurring job-flight episodes; South Dakota has had sporadic jobs wars with Iowa and Minnesota; New Jersey and Connecticut have eagerly enticed companies from New York City; New Hampshire has received many firms from Massachusetts; Kentucky likes to land companies from Ohio. This systematic use of taxpayer dollars to solicit or subsidize jobs from other states became institutionalized in the 1950s, with officials from southern states making recruitment trips to New York City, and it continues to this day.

Some economists point out that from a national perspective, this is all a zero-sum game; that is, there is no net gain for the U.S. economy, just a reshuffling of the deck. Some argue that it is even worse—that it is a net-loss game. That's because overall, with so many tax breaks given to "new" jobs that are actually just moved jobs, there are fewer tax revenues for education and infrastructure and other public goods that benefit all employers, not just the footloose ones.[63]

Scam #8: Pay Poverty Wages; Stick Taxpayers with Hidden Costs

While good manufacturing jobs were being pirated from Los Angeles by other western states and cities in the 1990s, the City itself had an odd counter-strategy: subsidize poverty-wage retail and fast-food jobs and call it economic development. This terrible waste of resources occurred as Los Angeles suffered a rise in concentrated poverty on a scale beyond that of any other U.S. city.[64]

The Los Angeles Alliance for a New Economy (LAANE), a labor-community network organizing to reshape the city's development priorities, has documented the tragedy of this "low road" approach. Together with scholars at UCLA, it analyzed the Community Redevelopment Agency's track record. Between 1990 and 1997, the agency spent $193 million on commercial development deals, but two-thirds of the money went to retail projects dominated by poverty-wage jobs. For example, the Baldwin Hills Crenshaw Plaza got subsidies worth $53,725 per job, but front-line workers got paid an average of only $6.50 an hour.[65]

LAANE and UCLA also examined the track record of the mayor's Los Angeles Business Team (LABT), a sort of rapid-response unit created to help improve the city's "business climate" by cutting red tape on permits and location assistance. The LABT was supposed to target certain industries that create good jobs, but the research found that most of its assistance didn't go to the targeted sectors—and a fourth of the companies it helped were retailers, including 21 fast-food restaurants, many of which sought special waivers to allow for drive-through windows.[66]

The problem of governments subsidizing lousy jobs is hardly unique to Los Angeles, or to urban areas. An analysis of more than 500 deals all over Minnesota, a state that is not known to "shoot everything that flies and claim everything that drops" when it comes to job creation, found that almost two-thirds of the companies it had subsidized were paying wages so low a family of three would qualify for Medicaid, and more than a fourth paid so low the same family would qualify for food stamps.[67]

The Kentucky Economic Justice Alliance (KEJA) *is* in a state known for subsidizing any old job. In just one two-year period, KEJA found that the state had granted tax breaks to at least 31 companies that paid average wages below the federal poverty line for a family of four. In the same period, KEJA found 10 deals in which tax credits exceeded $100,000 per job.[68]

These findings could hardly have come as a surprise to Bluegrass State taxpayers. For years, Bill Bishop of the *Lexington Herald-Leader* had been documenting how the Kentucky Rural Economic Development Act and other subsidies were attracting poverty-wage jobs. When uniform maker Cintas announced a sewing plant in Hazard in 1993, it was given a $1.6 million building and $2 million of equipment, plus no corporate taxes, plus the company got to keep taxes deducted from the employees' paychecks. The pay: $5 an hour. Calling the strategy a "two-time loser," Bishop argued that poor wages create no tax base and that "low-wage industries, once settled in an area, work hard (and successfully) to keep high-wage businesses out." Kentucky, he noted, was following the path of Arkansas, where a retired economist who had studied the subsidies-for-low-wages strategy called it "rural ghettoization." Declining schools and roads drove prosperous people out, putting the economy and tax base into a downward spiral.[69]

Of course, the all-time poster child for hidden taxpayer costs must be Wal-Mart. As we'll discuss in chapter 6 on sprawl, the world's biggest retailer has benefited from more than $1 billion in bricks-and-mortar subsidies. Those are the front-door costs. The back-door costs are the safety-net expenses to help Wal-Mart workers and their families survive on everyday low wages. U.S. congressional staff have estimated that each Wal-Mart store with 200 employees costs federal taxpayers $420,750 a year. That's when you add up costs for programs such as State Children's Health Insurance Program, Section 8 housing assistance, free or reduced-price school lunches, the Earned Income Tax Credit, and low-income energy assistance.[70]

Scam #9: Exaggerate the "Ripple Effect" Benefits

When politicians announce lavish subsidy packages, they often justify them with claims that the new jobs will also create lots of "ripple effect" jobs; they may even cite a number based on a consultant's study, such as three ripple effect jobs for each direct job, or five; I once read a claim of eleven. Journalists usually repeat the numbers uncritically, and the costs of the deal become more acceptable to taxpayers because they think the benefits are huge.

Many such claims are exaggerated, however, and the way the numbers are stated is often misread. First the misreading: usually when ripple effects are estimated they include the original direct job, but that is not clearly stated. So a claim of three jobs is actually one direct job and two indirect jobs—not one plus three. But even a claim of three total jobs is very likely to be exaggerated; experts caution that any claim above two and a half should be viewed with suspicion—that is, more than one direct job and one and a half indirect jobs.[71] That would be a high-impact deal with lots of feeder jobs "upstream" plus lots of "downstream" jobs created by virtue of the direct jobs paying good wages.

Another common problem with rosy cost-benefit claims is that although they claim lots of indirect benefits, they often fail to include indirect taxpayer costs above and beyond the subsidies to the company. That is, if an area gets new jobs and people move in to fill the jobs, local governments will have to build more schools and roads, lay more water and sewer lines, hire more teachers and public safety officers, pick up more trash, and so on. There's no such thing as free growth.[72]

Illinois made a rosy jobs claim to justify a big subsidy package it assembled to attract the headquarters of Boeing Corp. in 2001. In an unusually public auction, the aerospace giant announced it was moving its head offices with five hundred jobs away from Seattle and was considering Chicago, Dallas-Fort Worth, and Denver. A bidding war ensued, with Chicago and Illinois offering about $56 million in subsidies, Denver $18 million, and Dallas-Fort Worth $14 million. Boeing chose Chicago, although evidence suggests that it was the city's many assets—financial, business-service, cultural, and quality of life—not the subsidies, that won the deal.[73]

To justify the big subsidy package, the Illinois Department of Commerce and Community Affairs (DCCA) cited a projection that for each new Boeing headquarters job, the region would gain five more "high end" jobs. The number came from a study DCCA commissioned from the consulting arm of the now-defunct accounting firm Arthur Andersen (of Enron infamy).

The one-plus-five claim was not only implausible on its face, it was also wildly different from the ripple-effect claims made by DCCA years earlier when it justified a big retention package for the headquarters of Sears. In that 1989 episode, DCCA projected that losing 5,400 Sears jobs would have cost another 2,200 indirect jobs; that is, about 0.4 indirect jobs lost for each direct job lost—a plausible figure. In other words, DCCA claimed a job *gain* 1,150 percent higher for Boeing than the job *loss* it forecast for Sears, even though both episodes involved corporate headquarters jobs.[74]

DCCA released only a brief executive summary of the Andersen study that did not disclose its methodology or assumptions. An Illinois taxpayer then filed a Freedom of Information request to get the whole study. DCCA refused to release it, claiming confidentiality and that it would make it hard for DCCA to obtain similar studies in the future. Illinois courts upheld that claim and the study was never released.[75]

Scam #10: Subsidize Privatization of Public Jobs

Perhaps the most controversial form of privatization in the United States involves imprisonment of human souls. Today, about 95,000 people in the nation's state and federal prisons—about 6 percent—generate incarceration fees for companies such as Corrections Corporation of America and the GEO Group (formerly Wackenhut Corrections Corporation).

An investigation of the 60 largest private prisons in the United States found that 44—or 73 percent—have received job creation subsidies. These included $628 million in tax-free bonds and government-issued securities for construction, plus property tax abatements, infrastructure and land subsidies, training grants, and enterprise zones. The study also found widespread use of two specialized devices called lease-revenue bonds and certificates of participation. These devices do not require a voter referendum, so taxpayers are denied the right to decide if they want to finance a private prison in their community. The study even found a dozen instances of federal subsidies from four different U.S. agencies.

Of course, many would argue that private prison companies have little need for such subsidies. They have raised billions on Wall

Street as tougher state and federal sentencing laws have doubled the nation's prison population. The daily rates the companies charge include profit margins. And as largely non-union employers, they pay lower wages and benefits than the public agencies whose work they displace.

Corrections Corporation of America (CCA) is the biggest private prison company, with about half the "market." It built one of its facilities in Youngstown, Ohio, a depressed steel town in the Mahoning Valley near the Pennsylvania state line. There, CCA held inmates from Washington, DC. The city gave CCA 100 acres of land for $1 and free water and sewer hookups valued at $500,000.

From the time it opened in 1997, CCA's Youngstown prison was plagued by severe management problems, resulting in violence. In 1998, six inmates, including four convicted murderers, escaped by cutting through a gate in broad daylight. The facility became embroiled in lawsuits and investigations. Washington, DC's corrections trustee found that more than half of the senior corrections officers at the Youngstown facility had no prior correctional experience of any kind before being hired. The District did not renew CCA's contract and the facility was closed in 2001. Youngstown's mayor, who helped recruit CCA, said: "It's been a nightmare. [CCA's] credibility is zero."

Finally, in an apparent effort to redefine the term "chutzpah," CCA filed a property tax appeal in 1998 with Leavenworth County, Kansas, seeking a lower tax rate for its detention center there. It claimed to be a "residential" rather than a commercial structure.[76]

Scam #11: Bust the Union

Many of the manufacturing companies that have relocated plants from the North to the South, taking subsidies to make that move ever since the 1930s (and especially since the 1950s), have done so to get away from unions. Textile plants from the Northeast, auto-parts facilities from the Midwest, and many others have moved to "right to work" states where, because of the 1947 Taft-Hartley Act, unions are weaker because contracts between companies and unions cannot require a worker to belong to the union, even though he or she enjoys union wages and benefits.

An internal staff memo of the United Auto Workers from 1953, entitled "State and Local Subsidies to Promote Industrial Migration," noted with alarm an advertisement in *U.S. News & World Report* magazine. The ad featured a pitch from Governor Hugh White of Mississippi, touting his "Balancing Agriculture with Industry" plan, complete with "friendly labor" and taxpayer-financed buildings. The memo stated: "Under this plan political subdivisions are authorized to vote bonds to finance the purchase of land and the construction of buildings for lease to new or expanding industries." The union memo suggested further investigation into how many companies were migrating and where.[77]

A very early client of industrial realtor Felix Fantus, White had pioneered state legislation in Mississippi that accelerated a trend already established in the South: communities subsidizing footloose factories. With this new bonding authority from the state, localities could float a tax-free, low-interest bond to build a plant, then lease it to the company. And since the facility was publicly owned, there were no property taxes (see more in chapter 3).[78]

Ever since this southern innovation, subsidies have been given to runaway shops, and the movements don't always involve "right to work" states. In 1994, small-engine maker Briggs & Stratton announced it was moving 2,000 union jobs from the Milwaukee area to five college towns in the South and border states. The Paperworkers Union, which represented the Milwaukee workers, investigated the five sites and revealed that in Missouri and Kentucky, the company was slated to benefit from Community Development Block Grant funds—federal monies from the U.S. Department of Housing and Urban Development (HUD). In other words, Uncle

Sam was going to help finance interstate job transfers—back then, that was actually *a legal use of federal HUD monies!*

Wisconsin taxpayers went ballistic, and the state's congressional delegation eventually succeeded in attaching anti-piracy language to the HUD program (the last federal development program to lack such a safeguard).[79] But the jobs were moved and, once they were no longer union, wages and benefits were slashed.

The story does not always end as you might imagine for the southern communities that land the runaway shops. Many of the factories have moved on again, to Mexico, the Caribbean, or China. For example, auto-parts maker Bendix escaped the Auto Workers in South Bend, Indiana, in 1982 for Sumter, South Carolina. But in 2004, the company announced it would lay off 400 workers and move the work to Mexico.[80]

Scam #12: Soak the Taxpayer

Some subsidy programs and deals have become so astronomically expensive, they can only be fairly described as "soak the taxpayer" scams: as evidence of how job subsidies have become pure and simple transfers of wealth to corporate shareholders—from the rest of us.

How else do you explain 251 property tax exemptions given to Exxon over a 10-year period in Louisiana—to create *zero* new permanent jobs![81] As we'll detail in chapter 5 on property taxes, the Pelican State gives out huge property tax exemptions that disproportionately benefit petrochemical and paper companies.[82]

Connecticut spends aggressively on "job creation," but a 2002 study of almost 1,200 subsidized companies there found that 41 percent of them had actually *lost* jobs. Companies getting subsidies from the largest program, the Connecticut Development Agency, had created only *9 percent* of the jobs they had forecast. The average subsidy for each new job: $367,910.[83]

Florida governor Jeb Bush decided to take federal money that had been sent to his state to help with budget shortfalls and use it instead for a pricey subsidy deal with Scripps Research Institute to create a new biomedical research facility. Combining $369 million from the state with $667 million from Palm Beach County, the deal is slated to create 545 jobs—a subsidy of more than $1.9 million each![84] (Scripps is a non-profit corporation and thus has no shareholders.)

North Carolina used to be a stingy state. For decades, a mix of fiscal and ideological conservatism prevailed in the Tarheel State, so that in essence it said: we have low taxes and low regulation; we are improving our schools, universities and training programs; we have a few cookie-cutter subsidies that any business can seek, but we don't do big sweetheart deals. That philosophy worked; the state enjoyed strong job creation and low unemployment. But after "losing" a few high-profile competitions with other states in the early 1990s, North Carolina slid onto the slippery slope in 1996 with a law called the William S. Lee Act.[85] The first two subsidy deals out of the tubes said it all: $115.5 million or $77,000 per job for a FedEx hub (where more than two thirds of the jobs were projected to be part-time), and $161 million or *$536,000 per job* for a Nucor steel mini-mill. Under its agreement, Nucor reportedly won't pay any state income tax for 25 years.[86]

Dell's Fabulous Deal in North Carolina

Dell, Inc. is another aggressive company when it comes to seeking subsidies. Its recent deal in North Carolina may be setting a record for the highest ratio of subsidy to private investment. Subsidies usually equal a small fraction of the cost of a facility; a high-impact deal like an auto plant might have a subsidy ratio as high as one-fourth, and some deals may exceed even that. But a subsidy far bigger than the company's cost of building a facility—now, *that's* rare.[87]

That's exactly what North Carolina governor Mike Easley's administration negotiated with Dell for a new computer-assembly plant and distribution center announced in late 2004. In exchange for investing at least $100 million (and perhaps eventually $115 million) and hiring at least 1,500 people within five years, Dell was promised state subsidies estimated at $242 to $267 million—*roughly two and half times the cost of the plant and warehouse!* It's the biggest subsidy package in Tarheel State history.[88]

How can this happen? The big bucks—$200 to $225 million—will come from an unusual subsidy that is tied to neither jobs nor investment. North Carolina will give Dell a tax credit of $15 for every computer or peripheral unit the factory produces in 2006 and a tax credit of $6.25 for each such product produced from 2007 to 2019. Other subsidies will include infrastructure aid, training grants, and a grant that will rebate three-fourths of the personal income taxes paid by Dell's employees back to the company for the first 12 years. In announcing the North Carolina subsidies, Governor Easley's aides said Dell would locate in the three-county Piedmont Triad but did not specify a site, saying the company would also seek local subsidies. That set off a bidding war among the three counties, and Dell got another $37.2 million in subsidies from Forsyth County and Winston-Salem. So the whole package may eventually exceed $300 million.[89]

One of the few voices objecting to the Dell deal was that of Perri Morgan, then North Carolina state director of the National Federation of Independent Business (NFIB), the state's main advocate for small and independent businesses. She noted that legislators only received the Dell legislation on the day of the vote and were repeatedly told it could not be amended in any way or else Dell would walk away. Legislators in both the House and Senate tried to attach some safeguards, such as disclosure, but were defeated. "It's just an insult to the other business owners in North Carolina," Morgan said later. She said some NFIB members are beginning to see a link between tax hikes on small businesses and deals like Dell's. "I think with every deal, a few more people wake up," she said.[90]

Indeed, since the deal was announced, revelations about Dell's aggressive bargaining have inflamed public debate there. The North

Carolina Press Association and the John Locke Foundation sued for the disclosure of state files, and about 4,000 pages were released. They reveal that Dell officials sought to avoid paying any income tax (citing the fact that Dell's headquarters state, Texas, does not have a corporate income tax) and that they also wanted numerous other big subsidies.

"Here's what it'll take," Dell vice president Kip Thompson told Commerce Secretary Jim Fain in May 2004, according to Fain's notes. "1) free land; 2) free bldg.; 3) no taxes; 4) training at $5m; 5) participation in creation of future value in the community." The following month, Thompson said to Fain: "[I am] not wowed here—not sure the state's stepping up here . . . If a state like N.C. can't get after this, I'm worried for our country—there's a certain amount of patriotism here." Later in June, Thompson told Fain: "20-year program of no tax . . . 'That's my line in the sand.'" In early July, after the state had upped its offer again, Thompson said to Fain: "I'm personally disappointed. I was shocked when we ran the numbers. Unless I can get that income tax resolved, it's best we moved on." And days later: "Here's what's most disconcerting. 2,000 jobs—shouldn't you be happy with no revenue?"[91]

At least some of the state negotiators realized what a ruinous precedent the Dell deal was setting. As one official wrote: "Politically dangerous. Probably overestimated impacts. Is it economically feasible in the long run? Do we give a zero-tax package to IBM, Merck, GD, Bayer, Glaxo, Cisco? Who will pay the taxes?"[92]

Dell has used its high profile to get big subsidy commitments; one estimate put them at $429 million just between 1999 and 2004. In Nashville, it got a multiple-subsidy package that includes a property tax abatement—*for 40 years!* (This is the longest tax holiday I've ever encountered.) An official in West Chester, Ohio, said a Dell warehouse got a subsidy there that 20 other companies had been denied. "If you've got a good name, then you can play a good game," he said.[93]

Scam #13: Threaten to Leave New York City

New York City is in a class by itself as the "job blackmail" capital of the United States. The game of creating an appearance that you are interested in leaving Manhattan is simple and cheap. Go to one or two cities in neighboring New Jersey or Connecticut. Talk to local officials, look at some space, let the mayor pitch a deal, and don't make a secret of it. Then go back and threaten New York. Jersey City, which has landed quite a few companies that really did want to move, makes for an especially effective blackmail threat. As Jersey City developer Richard LeFrak put it: "A lot of people come out and kick the tires and then go back to New York and negotiate a deal. It's part of the process of getting subsidies out of New York."[94]

Numerous banks, stock exchanges, TV networks, and insurance companies cashed in on subsidies from the Big Apple in the late 1980s and early 1990s. Consider some of the eight- and nine-figure deals, shown in table 1.1, that had already unfolded by 1993:[95]

Table 1.1. New York City "Retention" Subsidies, 1988–1993

NBC (package #1)	1988	$72.0 million
Chase Manhattan Bank (now JPMorgan Chase)	1989	$211.8 million
Citicorp (now Citibank; multiple recipient)	1989	$90.0 million
Bear Stearns & Company (package #1)	1991	$30.7 million
CBS (package #1)	1993	$49.3 million
New York Times (package #1)	1993	$28.7 million
Kidder Peabody	1993	$31.0 million

But the pace of giveaways greatly escalated under Mayor Rudolph Giuliani. In his first 18 months on the job, *CFO* magazine estimated, he "cut 11 deals worth about $350 million in long-term tax breaks."[96] Consider the parade of major deals from 1994 to 2001 shown in table 1.2.

Table 1.2. New York City "Retention" Subsidies, 1994–2001

Capital Cities/ABC Inc.	1994	$26.0 million
New York Mercantile Exchange	1994	$183.9 million
BankAmerica (now Bank of America; package #1, terminated 1998)	1994	$18.0 million
Prudential Securities	1995	$122.9 million
Morgan Stanley	1995	$70.8 million
Donaldson, Lufkin & Jenrette, Inc.	1995	$28.0 million
Credit Suisse First Boston	1995	$63.0 million
Viacom Inc. (multiple recipient)	1996	$15.0 million
Depository Trust Co.	1996	$18.5 million
Equitable Companies/ Equitable Life Assurance Society	1996	$10.3 million
Cotton Exchange and Coffee, Sugar, and Cocoa Exchange (never used)	1996	$98.8 million
Mutual of New York (MONY)	1996	$5.7 million
Conde Nast	1996	$10.8 million
News America (package #1)	1996	$20.7 million
Fidelity Investments/ National Financial Services Corp.	1996	$3.6 million
Empire Insurance Group (package #1)	1996	$8.7 million
American International Group (AIG)	1996	$58.9 million

Table 1.2. *(continued)*

NBC (package #2)	1996	$7.0 million
Price Waterhouse	1997	$3.1 million
Merrill Lynch	1997	$28.6 million
Bear Stearns (package #2)	1997	$75.0 million
PaineWebber (multiple recipient)	1997	$14.5 million
Ziff-Davis Publishing	1997	$4.3 million
Guardian Life Insurance	1998	$11.3 million
ING Barings	1998	$7.5 million
McGraw-Hill/ Standard & Poor's	1998	$52.5 million
Reuters	1998	$26.0 million
News America/New York Post (package #2)	1998	$24.4 million
Murray Feiss Import Corp.	1998	$6.4 million
New York Stock Exchange (terminated)	1998	$940.0 million
Barnes & Noble	1999	$2.1 million
Bertelsmann AG (package #2, never used)	1999	$28.0 million
CBS (package #2)	1999	$10.0 million
Time Warner Inc./ Home Box Office (package #1)	1999	$10.0 million
New York Board of Trade	1999	$31.0 million
VNU USA Company	1999	$10.6 million
Time Warner Inc./ Time Inc. (package #2)	1999	$28.0 million
Quick and Reilly/ Fleet Securities	2000	$4.8 million
Federated Department Stores Inc.	2000	$2.3 million
Liz Claiborne	2000	$8.0 million

Table 1.2. *(continued)*

Bloomberg (renounced by mayor-elect Bloomberg 11/02)	2000	$14.0 million
Arthur Andersen	2000	$4.5 million
NASDAQ/AMEX	2000	$52.0 million
Reed Elsevier	2000	$29.0 million
Canadian Imperial Bank of Commerce (CIBC)	2001	$16.0 million
New York Times (package #2)	2001	$18.7 million
Met Life	2001	$20.8 million

The deal to end all deals was Giuliani's 1998 announcement of a package worth *$940 million* to retain 1,500 jobs at the New York Stock Exchange. The NYSE made the implausible threat of relocating to Jersey City. I say implausible because by then many of its major member firms had been subsidized to stay in Manhattan. As well, financial "clusters" benefit from physical proximity: deal makers like to have lunch together, and Wall Street thrives on face-to-face gossip.

Nonetheless, Giuliani announced the lavish deal in an event full of telegenic sound bites. The City's giddy press release quoted three different officials as saying the deal clinched New York City as "The Financial Capital of the World."[97]

As the details unfolded, the deal appeared ever more piggish. The Exchange demanded a huge, sprawling footprint for the main trading floor of 600,000 square feet, requiring that three or four large buildings on its block be demolished. Industry observers noted that the NYSE's plans contradicted the international trend toward more trading being done by computers, not by hand-signaling traders. In the ensuing years after 1998, the deal's projected costs mounted, yet Giuliani stayed the course, so that at one point the subsidies were estimated at $1.1 billion—or $733,000 per job.[98] The deal eventually collapsed, but not before buildings were acquired and tenants evicted. Research by Good Jobs New York and the *New York Post* indicates that taxpayers have still been stuck with bills totaling at least $145 million to buy land and buildings, move tenants out, and pay bond and architectural fees for the aborted project. The NYSE stayed put.[99]

The Giuliani administration was also very secretive about the dozens of big subsidy deals it did; except for occasional, upbeat press releases, it told the public very little about what the deals cost or what the companies actually promised in exchange. Mayor Bloomberg's administration has been more forthcoming. Although it took a Freedom of Information Law request and an appeal filed after a six-month delay, his Economic Development Corporation finally released reams of data about many deals.

The fine print reveals that some of the contracts (such as those with PaineWebber, ING Financial Holdings, NASDAQ/AMEX, and Credit Suisse First Boston) allow companies to lay off as much as 8 percent of their workforce before suffering any penalties. But some contracts also set the bar artificially low to begin with. For example, Merrill Lynch had 9,693 employees when it signed its deal with Giuliani's administration, but the contract set the number at 9,000 and then allowed another 8 percent of layoffs beyond that before any penalties would apply. In other words, the company could actually lay off 1,413 people—a seventh of its staff—before losing any of the subsidy. Company and city officials publicized the deal as a 2,000-job creator, but that figure does not appear in the contract.[100]

Generally, the New York contracts are soft. Besides the layoff leniency, some of the contracts gave the city's development agency discretion whether or not to apply a penalty. Two of the contracts said companies could even *relocate* as much as 15 percent of their workforce out of the City before a deal would be terminated.[101] The contracts typically do not require a company to repay the subsidies even if they have large-scale layoffs.

This from a man who first became famous as a federal prosecutor. Rudolph Giuliani may have been *Time* magazine's 2001 Person of the Year for his leadership on September 11, but he also gets my vote for Giveaway King of the Late Twentieth Century.

Mayor Bloomberg has been less profligate than Giuliani was—in part, no doubt, because of the financial crisis he inherited, including so much tax revenue lost to "job retention" deals. He has also tried to walk the talk. Upon his election, he actually renounced a $14 million package that had been granted to Bloomberg LP, his financial data firm, saying: "Any company that makes a decision as to where they are going to be based on the tax rate is a company that won't be around very long . . . If you're down to that incremental margin you don't have a business."[102]

Scam #14: Ride Enron's Coattails

Enron! Where is Enron in the Great American Jobs Scam, you ask? Surely, Ken Lay must have something to do with it.

Not to disappoint! In 1985, Lay was the chairman and CEO of a small pipeline firm, Houston Natural Gas Company. He and his board agreed that year to merge the company into the much larger InterNorth, Inc., a pipeline company long based in Omaha. InterNorth's chairman saw the merger as a defensive measure to make his company less vulnerable to a hostile takeover. Given that Lay was from Houston, Omaha civic leaders feared he might relocate the headquarters, but he did some things that made it appear he would stay in Omaha: the company started to buy a luxury condo for him; he was elected to the board of the Greater Omaha Chamber of Commerce; and he even became a governor of another powerful business group, the Knights of Ak-Sar-Ben (that's "Nebraska" reversed).

But by spring 1986 Lay had become InterNorth's chairman, and pro-Houston board members prevailed; they renamed the company Enron and announced a move to Houston. Omaha's mayor had tried to persuade Lay to stay, meeting him for lunch at the high-rise Petroleum Club in downtown Houston. After hearing the mayor's pitch, Lay walked him to a window and pointed to a sleek office tower. Houston was giving the building to Enron free of rent for three years, Lay said, even renaming it Enron Tower. Over the next two years, Omaha would lose 2,000 Enron headquarters jobs to Houston.[103]

The loss of Enron jobs shook Nebraska's leaders, making them especially vulnerable to new job blackmail threats. Sure enough, just months later in 1986, agribusiness giant ConAgra said it was considering relocating its Omaha headquarters to Knoxville unless it got big tax breaks. Haunted by memories of InterNorth/Enron and urged on by Governor Kay Orr, the state legislature in early 1987 began debating three tax-break bills favoring large companies and high-income individuals, including income, sales, and property tax breaks, plus Single Sales Factor—the income-tax windfall that Raytheon would later demand in Massachusetts.

The Nebraska debate got ugly. Although the tax breaks benefited many companies, they were publicly identified with the agribusiness giant, and some of the specifics were enacted at ConAgra's insistence, such as a property tax exemption on mainframe computers and corporate jets. Some state senators balked on the jets and computers, and Senator Ernie Chambers of Omaha even filibustered, offering dozens of amendments, such as requiring that the ConAgra corporate logo "be tastefully added" to the state flag. ConAgra issued a press release that it had "terminated its site selection activities in the Omaha area," "decided to solicit proposals from interested states" for its headquarters and a new product laboratory, and would "begin funding a new program for employee moving allowances."

Then-governor of Missouri John Ashcroft telephoned ConAgra's CEO to launch a bid for the company's headquarters. "To Nebraska's dismay, we will aggressively pursue that company," said a Missouri spokesperson.[104]

Less than two weeks later, the Employment and Investment Growth Act—better known as LB 775—passed the Cornhusker

State's unicameral legislature, with all of ConAgra's wish list intact. In addition to the corporate tax breaks, the package cut the state's top personal income tax rate from 9.5 percent to 5.9 percent. "If tax giveaways were fast food, there'd be an arch over this chamber," one senator lamented. Senator Vard Johnson, the main backer of the tax cuts, was blunt about the power dynamic: "This can be justified as an open acknowledgment of the ability of the affluent to vote with their feet," he said.[105]

Very quickly, it became evident that the main tax-cut law, LB 775, was going to cost far more than legislators expected, and that many companies were going to get tax breaks even if they created no new jobs—or even if they laid people off. Within six months, 75 companies had already applied for LB 775 tax credits, which had no cap. A fourth of the applicant companies said they would not create any jobs at all; one option under the law allows that. One company, Mutual of Omaha, applied for a tax credit on a new computer system even though it had announced it was *eliminating* 1,000 headquarters jobs. The tax cut's price tag? During the 1987 debate, the legislative fiscal office estimated that LB 775 would cost the state $5.3 million in lost tax revenue in its second year in effect. But the Nebraska Department of Revenue now reports that through 2003 companies have garnered $1.88 billion in LB 775 investment tax credits and used $1.02 billion of them (the entitlement period is seven years, plus up to eight years of carry-forwards if a company has any left over). Plus, companies have received sales and use tax refunds from the state of $534 million.[106]

In other words, the state has been incurring tax credits and paying tax refunds to the tune of *more than $150 million a year*—a far cry from the $5.3 million annual cost originally forecast.

With accounting like that, who needs Enron?

"This is Nebraska's corporate accounting scandal," says Tim Rinne of Nebraskans for Peace. A coalition of 20 groups seeks to repeal LB 775, citing the law's ruinous costs and inflated job claims. More than a dozen legislative efforts to reform the law have failed, mostly in committee. Reform advocates are concerned by state budget deficits that have forced the legislature to cut funding for K-12, higher education, and other state programs.[107]

But the Nebraska Chamber of Commerce and Industry suggests it wants more. "Business is different today than it was in 1987," says the chamber's chief executive. "It shows we need to be looking at the next generation of economic incentives."[108]