
Good Jobs, Sound Budgeting

Greg LeRoy, Good Jobs First

www.goodjobsfirst.org ~ 202-232-1616

The Poverty Institute

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Good Jobs First:

A Resource for Accountability

- 4-million hit website with many tools
www.goodjobsfirst.org
 - Model research and publications
 - Training and speaking
 - Technical assistance
 - Partnerships with policy coalitions
 - Testimony and legislative analysis
 - Media assistance
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Multiple Choice

How do you define “Economic Development”?

- a) it's simple: businesses get a lot of money from government, politicians take credit for creating jobs, details aren't discussed, and folks trust everything will work out all right.
 - b) it's complicated: lawyers, bankers, planners, studies, and reams of paper that no average taxpayer could ever hope to understand.
 - c) raising the living standards of average working people.
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Call Them What You Will

- **“Business Incentives” (misleading)**
 - **“Corporate Welfare” (confusing)**
 - **“Job Subsidies” (preferred)**
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- The average state now has >30 and they cost state and local governments >\$50 Billion each and every year
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The 50-State “Candy Store”

- property tax abatements
 - sales tax exemptions
 - corporate income tax credits
 - low-interest loans & loan guarantees
 - enterprise zones & TIF districts
 - training grants
 - infrastructure aid
 - utility tax exemptions
 - Etc, etc, etc...
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High Costs, Mostly “Tax Expenditures”

- Deals usually involve multiple subsidies and often total more than \$100,000/job
 - “Tax Expenditures” – i.e., uncollected taxes (income, property, sales) are the bottom of the iceberg: 4/1, 6/1, 8/1 or more
 - Affects every sector: from multi-state “sweepstakes” for auto assembly plants to suburb-vs.-suburb competition for big-box retail
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Retail Incentives:

Current Controversial Trend

- Retailing packs a poor “bang for the buck” compared to manufacturing, etc., but the national chains seek big favors
 - Cabela’s and Bass Pro currently stand out: more than \$700 million in subsidies in recent years, with Cabela’s averaging \$25 million per facility!
 - Wal-Mart at \$1.2 billion – and counting!
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All together, they add up to...

more than

\$50 Billion

**a year, states and cities
combined!**

Many Recurring Problems, According to Auditors, Journalists, Academics, and Watchdogs

- Factory jobs relocated (unions busted)
 - Public services – especially schools - and public employee jobs undermined
 - Infrastructure neglected due to tax base erosion (Civil Engineers' grade: D+)
 - Existing jobs and tax base merely shuffled, often within the same metro, working families' neighborhoods undermined by sprawl
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Recurring Problems, Cont.

- Large, newly arriving businesses favored over small, existing businesses (i.e., Cabela's, Wal-Mart)
 - Some companies pay poverty-level wages and/or fail to provide healthcare, growing Medicaid and SCHIP rolls
 - One third to one half of assisted companies fall short on job creation, but are often allowed to keep money
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Recurring Problems, Cont.

- Budget harms are often masked when incentives are structured predominately as tax expenditures
 - That means when difficult budget choices have to be made by the state, the bulk of economic development tax breaks go unexamined, while appropriations for social services suffer
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It Matters A Lot for Education

- Good jobs in the future will require higher skills, at least two years of college – and therefore great K-12 public schools
 - The imminent wave of “Baby Boom” retirements (beginning this year!) is already creating skills shortages in many industries and occupations – and the outlook is for decades more
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The Nation's Most Experienced Site Location Consultant Says:

“For our clients, education has been found to be the single most important service, greatly exceeding the value of all other services combined. ...**The single most important factor in site selection today is the quality of the available workforce.** ...in fact, a qualified work force may be the single most important determinant in the economic development success of any community.”

~ Robert Ady

So Strong Schools = A Good “Business Climate”

- Therefore, undermining public education in the name of a “better business climate” is actually doing just the opposite
 - Education advocates defending the future skills base are the true “business climate” crusaders in the 21st century!
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In Sum: Job Subsidies are “Low-Hanging Fruit” because they are...

- a) High-profile
 - b) Costly (up front and down the road)
 - c) Company-specific (unfair to others)
 - d) Frequently abused (rules are loose)
 - e) Therefore ripe for reform
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Bottom Line for RI Taxpayers

- This is a budget area with lots of unintended consequences, lots of ineffective expenditures, and therefore lots of room for reform
 - Many other states have established solid reform precedents from which you can borrow
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States Write the Rules, Even for Local Subsidies

- If Wal-Mart gets a TIF* district to crush local merchants... if a factory gets big tax breaks and lays off workers... if a mutual fund company gets a huge tax break with no job guarantees
- These abuses are only possible because STATE RULES allow them

*tax increment financing

State Reform #1: Disclosure!

- Annual, company-specific reporting of subsidies, preferably accompanied by outcome data (i.e., costs and benefits over time)
 - Disclosure must be on the Web, and then it must be complete, thorough, and searchable.
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State Reform #1: Disclosure!

- Already, 23 states have some form of company-specific disclosure on the Web:
 - However, many are quite limited: they don't cover many programs or reveal outcomes (i.e., whether companies delivered the jobs or how good they are)
 - Those states don't get a passing grade...
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And the 23 “Winners” Are...

Illinois	85% ~ B	<i>Vermont</i>	61% ~ D-
Iowa	82% ~ B-	<i>Maryland</i>	59% ~ F
Minnesota	79% ~ C+	Montana	58% ~ F
<i>Pennsylvania</i>	78% ~ C-	<i>New York</i>	58% ~ F
Ohio	69% ~ D+	Nebraska	56% ~ F
<i>Connecticut</i>	67% ~ D+	South Dakota	55% ~ F
<i>North Carolina</i>	67% ~ D+	Texas	55% ~ F
Missouri	65% ~ D	Nevada & Utah	52% ~ F
North Dakota	64% ~ D	Wisconsin	52% ~ F
Indiana	61% ~ D-	<i>Maine</i>	48% ~ F
<i>New Jersey</i>	61% ~ D-	Kentucky	45% ~ F

Plus Three New Disclosure States in 2008!

- Hawaii
 - Louisiana
 - Oklahoma
 - (major improvements in Missouri, Nebraska, New Jersey, and North Dakota)
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See all the Details at:

The State of State Disclosure

www.goodjobsfirst.org/statedisclosure.cfm

State Disclosure Websites at:

www.goodjobsfirst.org/news/article.cfm?id=361

Disclosure:

Rhode Island Missing in Action!

- Rhode Island still fails to use cheap Web technology, hides information about companies that get tax breaks and what they do (or don't do) with them
 - With 26 states disclosing as of 2008, no one can credibly claim that sunshine is “violating taxpayer confidentiality” or “poisoning the business climate”
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State Reform #2: Job Quality Standards

- Require that subsidized companies pay certain wage, provide healthcare and/or full-time hours
 - At least 43 States, 41 cities and 5 counties have them for at least one – and sometimes all – of their subsidies
 - Many “living wage” ordinances cover subsidies as well as contracting out
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Rhode Island Uses Job Quality with Several Programs

- Bad (minimum wage-based) standards for: Job Training Tax Credit, Corporate Income Tax Rate Reduction for Job Creation, and Job Creation Grant Program
 - Better (market-based) standard for Expanded Investment Tax Credit for High Performance Manufacturers, Investment Tax Credits for Traded Service Industries, Jobs Growth Act
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Job Quality Standards

- Public officials who enforce the standards, when asked, most often cite the “*hidden taxpayer costs*” argument
 - That is: why subsidize a company and then allow it to pay so little that workers qualify for Medicaid, SCHIP, food stamps, Section 8, home heating assistance, etc?
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State Reform #3: Clawbacks

- Money-back guarantee contracts that require a subsidized company to produce a certain level of public benefit (usually job creation and/or capital investment) in a certain timeframe (typically 2-3 years), or pay a prorated share of the subsidy back
 - Already, at least 20 states and many dozens of cities use clawbacks
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News Flash! Spitzer Administration May Rescind E-Zone Tax Breaks!

- New York Development recently warned 3,000 companies that were far behind on their job-creation pledges that they may lose future “Empire Zone” tax breaks
 - If even a fraction of these companies lose their EZ breaks, this would be the largest such event in world history
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State Reform #4:

Use Job Subsidies To Promote Smart Growth, Curb Global Warming

- Maryland, California, and Illinois have pioneered reforms to make economic development support smart growth, transit choice, and fewer greenhouse gas emissions
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State Reform #5:

Unified Development Budget

- Annual report to the state legislature with all state spending for economic development
 - Problem: “tax spending” is usually 80 percent or more of the pie, but tax breaks are often poorly reported or even hidden (unlike appropriations)
 - Solution: a Unified Development Budget to expose the whole “iceberg,” so corporate tax breaks get same scrutiny as appropriations
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RI Tax Expenditures for Jobs: Largely Hidden

Poverty Institute analysis of \$1.4 Billion “Tax Expenditure Report” finds big problems:

- ❑ Of 212 tax breaks (corporate and personal), the state failed to price-tag 60% of them
 - ❑ Many economic development tax breaks w/o price tags
 - ❑ Tax breaks for investment companies, art, boats, international finance, films, aircraft, computer companies – all unknown!
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Hidden RI Tax Expenditures

- Of 25 tax breaks against the Business Corporation Tax, 23 got no price tag
 - None of the major job subsidy programs were evaluated, though an outside study found enterprise zones ineffective
 - Another major tax break enacted in the name of jobs – the Jobs Growth Act – is structured so as to defy costing or evaluation
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Cost-Benefit Analysis 101

- You can't compare costs to benefits if you don't know your costs
 - You can't compare benefits to costs if you can't quantify your benefits
 - If you lack information about both costs and benefits, you are blindly “throwing money at the problem”
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Unified Development Budgets

- New Jersey just enacted a UDB (along with disclosure); Texas has a weak one; Ohio and Iowa are debating legislation
 - Non-profit groups have performed them in North Carolina, Iowa, California, and Kentucky
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Unified Development Budget

Recommended for Rhode Island because:

- 1) The State is facing tough budget choices
 - 2) Taxpayers have no way of evaluating dozens of corporate tax breaks
 - 3) Plan A (give away the store, trust things will work out) doesn't seem to be working
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It's 2008:
do you know where
your job subsidies
are going?!

Contact Us!

Greg LeRoy

Executive Director

Good Jobs First

goodjobs@goodjobsfirst.org

www.goodjobsfirst.org

202-232-1616 x 211
