Author calls tax breaks a raw deal for the state

BY JIM BARON

1-12-08

WARWICK — State and local governments make deals to forego billions of dollars in tax revenue each year to lure corporations to do business in their area, often with little or no accountability as to how big the tax breaks are or what they will get in return in terms of jobs and other economic benefits.

That's what an author and leading expert on such subsidies told a Poverty Institute luncheon Thursday. According to Greg LeRoy, in many cases states are spending money to affect a decision that has already been made.

“People who make their living advising companies on where to expand and locate say that tax breaks make a difference 2, 3 or 4 percent of the time,” LeRoy said.

He is executive director of the Washington DC-based Good Jobs First, and author of “The Great American Jobs Scam: Corporate Tax Dodging and the Myth of Job Creation.”
“They only make a difference if there is a tie” between two or more places vying to attract a company to their location, LeRoy said, “and there is rarely a tie.”

Often, LeRoy said, it is only after all other factors have been considered, and sometimes even after the location decision has been made, that companies come around looking for tax stabilization agreements and other subsidies. They make it appear that there may still be one or more other sites under consideration as leverage to get a tax break at the place where they have decided they want to go, he said.

For the average company in this country, all state and local taxes combined come to 1.2 percent of their costs, according to the Internal Revenue Service, LeRoy stated. When they itemize those costs for federal taxes, he added, the tax burden lowers to .08 of 1 percent. “The other business basics make up the other costs: labor, materials, energy, occupancy, logistics, marketing.”
So, he said, states and municipalities would be better off using the money that now goes to tax breaks to improve their public education system to provide a better work force. LeRoy also advocates investing in infrastructure that would give incoming companies value in the areas they are really looking for.

“The single most important factor in site selection today,” LeRoy asserted, “is the quality of the available workforce.” He quoted Robert Ady, a site selection consultant, as saying, “For our clients, education has been found to be the single most important service, greatly exceeding the value of all other services combined."

Undermining public education by cutting funds in the name of reducing taxes to create “a better business climate” is actually doing the opposite, LeRoy told the group. “You are the true business climate crusaders in the 21st century” by advocating for more money for schools and other educational programs.

Measures such as cutting permitting and licensing periods in half, LeRoy said, “outweigh the value of a five-year property tax abatement. Developers love green lights, they hate red lights, but they hate yellow lights even more than red lights because they are hung up because time is money.”

Tax expenditure, he said, “is a budget area with lots of unintended consequences, lots of ineffective expenditures, and therefore lots of room for reform.” Subsidies can backfire, LeRoy said, if there are not “job quality standards” such as good wages and health care attached to the deals. Otherwise, he said, the companies pay low wages, and their workers come to the government for Medicaid, Food Stamps, heating assistance, S-CHIP health insurance for children and other assistance.

“Rhode Island has low standards for some of its programs,” he said. The Ocean State, LeRoy said, is “flying blind” because tax expenditures – the money states and municipalities do not receive as the result of business and corporate tax breaks – are often poorly reported and recorded and are sometimes hidden in the budget process.

For Rhode Island, LeRoy cited a Poverty Institute report stating that of the 212 corporate and personal tax breaks offered by the state, 60 percent had no estimate of what they cost and no way to effectively calculate such a figure. The other 40 percent cost about $1.4 billion, according to numbers from the state Division of Taxation. With other tax incentive programs, he said, there is no calculation of the benefits the state is receiving in additional jobs and other economic activity.

“You can’t compare costs to benefits if you don’t know your costs,” LeRoy said, “and 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 and hoping it all works out. It is not wrong to call that a loophole.”