

Giving away the store: Business subsidies need job-quality standards

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By Rick Wilson

For many years, it has been common for state and local governments to offer tax breaks and public subsidies to corporations in hope of promoting economic development and creating jobs. Often, no strings have been attached to these giveaways and little was done to ensure accountability.

In some cases, the companies did not create the number or quality of jobs promised. In others, they actually eliminated jobs. Many times, companies took a subsidy from one locality and moved when it expired, to another location with a better offer. In some cases, workers for these companies were paid so little that they qualified for public assistance. Taxpayers in effect wound up paying twice for the same low-paying jobs.

In addition, virtually every state and local government was competing for the same kinds of jobs. On many occasions, hard-pressed state and local governments gave away huge amounts per job created. According to a pioneering study of this problem, "No More Candy Store: States and Cities Making Job Subsidies Accountable (1989, revised 1994)," by the early 1990s, the costs were often staggering:

South Carolina granted a manufacturer a \$ 150 million package, at \$ 79,000 per job; Alabama aided a major multinational corporation to the tune of \$ 253 million, at \$ 170,000 per job; Kentucky gave a steel company \$ 140 million in aid for a 400-employee mill, at \$ 350,000 per job; and the list goes on.

In West Virginia, a study commissioned by the state Tax Department found that we had given away more than \$ 900 million in tax breaks or corporate welfare between 1988 and 1997 - about three times more than the state spent on aid to its poorest children and families in the same period. The Gazette said the study concluded: "Most of the tax breaks from those programs were not found to have directly created large numbers of jobs during the years studied." Probably the worst example of corporate welfare in West Virginia was the

Super Tax Credit program, which allowed some coal companies to claim the credit for "job creation" but eliminate jobs through automation.

Giving away the proverbial store probably never made a lot of sense, but it is even more irrational in a time of state budget crises and global economic competition. In the words of author Jeremy Brecher: "Today's global economy lets corporations pit workers and communities against each other to see who will provide the lowest wages, the most abusable workers, cheapest environmental costs, and biggest subsidies for corporations. The result: a 'race to the bottom' in which conditions for all tend to fall toward the poorest and most desperate."

In recent years, a growing number of state and local governments have come to realize that the low road is a road to nowhere. Many are now requiring job-quality standards involving good wages and/or benefits for workers in exchange for taxpayer subsidies.

A 2003 study by Good Jobs First, titled, "The Policy Shift to Good Jobs," reports that "the number of economic development subsidies with job-quality standards is continuing to rise sharply, and that standards are becoming an everyday tool for effectively targeting development subsidies to businesses that create high-quality jobs."

Standards are being applied to programs as varied as tax credits, training programs, industrial revenue bonds, loan programs, enterprise zones, and tax increment financing. Half of all states have at least one more subsidy with a standard than they did in 2000.

Wage standards are the most common, requiring pay to be above minimum wage or poverty level, while others use market-based standards. Delaware recently began applying the **Self-Sufficiency Standard** to one program. Typically, states tend to use labor market standards, while local governments use those pegged to the minimum wage or poverty level.

The report found that there are now at least 116 state programs with standards and 49 standards that apply to local subsidies. At least 43 states, 41 cities and five counties now attach standards to at least one subsidy.

"Standards that mandate employer-provided health-care benefits are also on the rise," the report says. "Two-thirds of states and 80 percent of cities and counties with standards either require health benefits or encourage coverage by allowing benefits to count toward wage requirements."

According to a survey of economic development officials cited in the study, the vast majority agreed that job-quality standards don't adversely affect the business climate. "A number of officials reported that subsidies with standards have a positive impact on their regions' development efforts. They described standards as an important tool for targeting subsidies in ways that create high-quality jobs, thereby avoiding the 'hidden taxpayer costs' (e.g. food stamps, Medicaid, and the Earned Income Tax Credit) that accompany poverty-wage work."

West Virginia has taken one tentative step in this direction by using prevailing-wage standards in construction projects financed by tax increment funding. The next obvious steps are to develop and apply standards to other types of subsidy programs and to put in place a mechanism to monitor compliance. Having clear standards and accountability procedures would also go along way toward avoiding the kinds of controversy that accompanied the last round of state economic development grants.

This is one area where people can find common ground across political divides. Fiscal conservatives don't like to waste public resources or "throw money at problems." Progressives want to improve conditions for low-income and working people. This is an approach that makes sense from both perspectives. If we are going to subsidize private businesses with scarce public resources, then let's at least get something out of it for working families.

If West Virginia enacted job-quality standards, low-wage, no-benefit employers would of course still be welcome to set up shop in our state. They'd just have to do it on their own nickel.

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