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Money for Nothing

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It was the dream of economic development that inspired officials in Caledonia, Minnesota, to give a Dairy Queen franchise a $275,000 tax subsidy in 1996. One problem: The largesse created exactly one job, at $4.50 an hour. The return on public investment wasn't much better in Pennsylvania a year later when the state--led by then-Governor Tom Ridge--and the City of Philadelphia ponied up $307 million worth of incentives to persuade Kvaerner ASA, a Norwegian global construction company, to reopen a section of Philadelphia's moribund shipyard. That created 950 jobs that paid around $50,000 a year--not bad, until you calculate the cost to taxpayers: $323,000 per job.

Mercedes-Benz cadged $253 million in state and local incentives in 1993 to build a plant near Tuscaloosa, Alabama. The school in the adjacent small town of Vance lacks the funding to add permanent classrooms to meet capacity, while Mercedes employees enjoy a $30 million training center built at taxpayer expense. The jobs created cost the public $168,000 each.

Despite such boondoggles, it's been accepted as nothing less than gospel that public bodies must give out subsidies to private companies to fuel economic growth. State and municipal leaders dished out an estimated $48.8 billion in subsidies, tax breaks and other incentives to corporations in 1996, the last time the figure was calculated; a more recent figure would likely top $50 billion, says Greg LeRoy, founder of the Washington, DC-based Good Jobs First and author of *No More Candy Store: States and Cities Making Job Subsidies Accountable*.

The amount of money is even more mind-boggling in light of the fact that much of it is given away no strings attached--without any explicit agreement regarding the numbers and quality of jobs created, or even guidelines on environmental and community impact. "The stuff that corporations call economic development is pretty shabby if you kick the tires," LeRoy says.

In the quest for economic development, states and regions lower their expectations on adherence to environmental regulations and what kinds of jobs are created, frantically bidding each other up beyond the limits of reason. Municipalities in Tennessee, Alabama, Arkansas and Mississippi competed for a Toyota plant last year with incentive packages as high as $500 million. Some of the alluring offers included free land and the naming rights for a sports stadium.

In 1998, then-New York City Mayor Rudy Giuliani championed what may be the biggest subsidy package ever--$1.4 billion in enticements to retain the New York Stock Exchange in Manhattan after NYSE officials made noises about moving to New Jersey. That state's Business Employment Incentive Program had successfully lured such big names as Goldman Sachs, Merrill Lynch and JP Morgan from New York City by offering a total of $710 million in inducements over six years.

The taxpayer's tab on the NYSE deal included a $450 million land purchase, $480 million in cash and $160 million in tax incentives. The NYSE plan eventually unraveled and was declared dead this past February, though taxpayers were still in for an estimated $109 million--just to bail out.

Surprisingly, Giuliani's successor, Michael Bloomberg, founder of capital's town crier, *Bloomberg News*, stood firm against the NYSE decampment threat and has generally been less than enthused about the notion of dishing out money to retain companies in Manhattan. Before being elected he said, "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."

Nevertheless, after 9/11, the public paid out some eye-popping sums to retain companies in lower Manhattan. The Bank of New York got some $40 million, while American Express, whose building is adjacent to the World Trade Center site, got $25 million, even after company leaders had already elected to stay.

The money came from $2.7 billion in community development grants administered by the Lower Manhattan Development Corporation, a city/state collaboration that has already doled out some $1 billion to businesses affected by the attacks, including corporate giants. The Labor Community Advocacy Network to Rebuild New York (LCAN), a coalition of more than fifty unions, community organizations and environmental-justice groups, estimates that the terror attacks cost New York 80,000 to 100,000 jobs. LCAN representatives have been lobbying hard for the remaining $1.2 billion to be used to create 25,000 fully subsidized public-service jobs and 35,000 partially subsidized private-sector jobs.

Good Jobs New York (an affiliate of LeRoy's Good Jobs First) and LCAN have only begun to insert themselves into New York's subsidy debate, but their efforts are emblematic of a national movement that's grown up over the past decade to contest corporate welfare, push back-room deals into the light and attach strings to public economic development dollars. Hundreds of activists gathered in July 2000 in Baltimore to share strategies at a first-ever conference of its kind; in November, Good Jobs First and other leading accountability activists will join labor allies in Milwaukee to press these issues at the annual gathering of the AFL-CIO's Working for America Institute.

Activists call it a movement for "accountable economic development," a phrase that doesn't begin to describe the dynamic range of political work going on, from a campaign in California to limit sprawl while bringing jobs and services to urban centers to a union lockout fight in Ohio, not to mention the widespread push to attach wage conditions to subsidy-based hires.

It's a sign of the times that few, if any, campaigns in the movement call for a subsidies cutoff. The role of government, under unflagging attack by the right for more than twenty years, has been increasingly supplanted by privatization, says Madeline Janis-Aparicio, co-founder and executive director of the Los Angeles Alliance for a New Economy. Opposition to subsidies is simply not winnable in most places, she argues, but public monies used for development give grassroots groups a chance to wedge into the debate and shape it from the beginning, to assess what a community really wants and fight for it.

Some development should be flatly opposed, she says. "There are times when a project is so bad, it should just be stopped in its tracks. Like Wal-Mart. It's a death star, killing all the local businesses." But in general she believes--as does the accountability movement as a whole--in a strategy of engagement. "Public investment is sometimes really needed in blighted communities," she says. "We need the right kind." To oppose all subsidies, she says, would be to "give up our place at the table."

For many organizations, the ground-floor fight is for information. Their battles center on local disclosure measures that require companies to reveal the figures on incentives received and jobs created. Public subsidies spew from so many spigots, it's often hard to identify all the sources and quantify the amount of public benefits any given company gets. The information provides the road map for subsequent accountability fights. Nine states now have some form of disclosure legislation that covers one or more subsidy programs.

The Minnesota Alliance for Progressive Action (MAPA), a coalition of twenty-eight organizations, pushed through the first and toughest disclosure law in 1995, which was subsequently strengthened even further. Minnesota's laws require public hearings that expose the details of subsidy agreements and provide an opening for demanding living-wage rules or other provisions. Beneficiary companies must make public their job-creation goals and wage structures, while the government body offering the subsidy has to report the amount and types of incentives it hands over. "We've got them on record if they're getting a bunch of money and giving nothing," says MAPA executive director Scott Cooper. MAPA is now working with organizations in North Dakota, Wisconsin and Iowa on crafting parallel disclosure legislation.

Stakes were high and the struggle grueling in Ohio three years ago, when an annual tax abatement to AK Steel became the target of a Steelworkers local. The county and city had granted AK Steel in Mansfield a $1.7 million annual tax abatement since 1993; in 1995 the local governments even lowered the hiring requirement from 1,140 workers to 700 and the payroll minimum from $49.3 million to $32.5 million.

So after AK Steel charged its 620 union workers with misconduct and locked them out, "The only way we could generate some economic leverage was to go after their tax abatement," says Tony Montana, a spokesperson for the United Steelworkers of America. The union argued that since the lockout brought AK way below its promised worker and payroll levels, the subsidy was vulnerable.

Unionists first launched a campaign in the summer of 2000 in support of a measure, Issue 7, that got on the ballot due to the signature-collecting work of scores of grassroots activists. The measure wouldn't have directly affected AK Steel's subsidy, but it would have reordered the way Mansfield doled out incentives, setting certain requirements for local hiring, a living wage and disclosure. It was soundly trounced in November after the mayor, the City Council president and the Chamber of Commerce joined forces to raise a $250,000 war chest to fight it. "It's symptomatic of a problem on a national scale," Montana says. "The City Council was more interested in making Mansfield a friendly place for business than making businesses live up to their promises."

Then the union carried the fight to the moribund Tax Incentive Review Council of Richland County, which is charged with overseeing some 200 local subsidies--but which had no regular open meetings and conducted most business by phone. Unionists revived the board, packed meetings of the City Council and county commissions, took their case to the media--and won. They forced the review council to commit to annual public meetings, which now attract great public interest. And in March 2002, the council reviewed AK Steel's performance and cut its subsidy by a third. That December AK Steel ended the lockout.

"It was a long, nasty struggle," Montana says, "and it's still not fully resolved." But, as far as subsidy accountability goes, "if we were able to do it in Mansfield with a bunch of locked-out workers and zero budget, we should be able to do it anywhere."

For grassroots accountability organizing, California is the gold standard. There, a decade-old pathfinder, the Los Angeles Alliance for a New Economy (LAANE), came up with a new accountability concept that has caught national attention in the movement: community benefits agreements. The agreements include job standards and more.

In 2001 LAANE leveraged $29 million in city subsidies to a mixed-use development in a struggling area of North Hollywood to win parks, a youth center and mitigation of problems caused by increased truck traffic. The developer also agreed to pay for fifty spots for low-income children at a planned childcare center and to provide free space for a community health clinic. A new grocery store will be required to sign a card-check neutrality agreement, making it easier for workers to organize, and 75 percent of the development's expected 2,000 retail and office jobs must be living wage. Finally, says Roxana Tynan, LAANE's director of accountable development, "the language around local hiring is the best and clearest that we have anywhere."

In three years, LAANE has negotiated a half-dozen such agreements, whose language is written directly into official city documents. For developers, says Tynan, "we are the pro-growth alternative. If they want to get past the NIMBYs they have to deal with us." Tynan says her hope is to take these individual victories and turn them into city policy.

California's Silicon Valley, once famed for its cyber-millionaires, has also experienced a boom in low-paid and temporary workers. An accountability group there called Working Partnerships USA negotiated a community-benefits package last year that mandated affordable housing, park space and wage standards as part of a housing and retail development in downtown San Jose. Amy Dean, a former labor leader and founder of Working Partnerships, says that winning in San Jose meant linking up with environmentalists who oppose suburban sprawl in the valley but who can be persuaded to support development that provides decent jobs and services in the urban core, where they are needed. "Many of them share our values and understand that 'smart growth,' absent equity, is elitist," Dean says.

Another accountability group, the East Bay Alliance for a Sustainable Economy (EBASE), won a ballot measure in March 2002 that set wage and other labor standards for jobs generated by the $1.9 billion expansion of the Oakland Port and airport. In San Diego, the Center for Policy Initiatives--at five years old, the youngest of California's accountability organizations--is laying the groundwork to challenge the city's head-snapping pace of subsidy approval.

Three years ago the four organizations formed a statewide alliance, the California Partnership for Working Families, with an eye toward pushing statewide policy initiatives. With four strong groups in key locations, the partnership offers the best hope yet for regional "no raid" agreements that will really stick. That would be groundbreaking. A few regions have attempted them before, Greg LeRoy says, citing one between New York, New Jersey and Connecticut in the early 1990s. "But they never really took," he says. "They had no binding authority--the minute a company would play one off against the other, they'd fall apart."

But each of the four groups in the California Partnership has developed what Amy Dean calls "a deep and rich base," built through scoring local wins. They all integrate research with organizing, which allows them to employ diverse tactics: generating large turnouts to hearings and actions and providing expert testimony based on a nuanced understanding of arcane development mechanisms.

Nationally, economic stress may create new openings for organizers. The current crisis in state budgets, the worst since the Great Depression, was certainly helped along by what LeRoy calls "subsidies enacted during the drunken-sailor binge of the late '90s." But fiscal austerity is also encouraging many state governments to rethink their subsidy policies. New Jersey, the feared raider of New York City jobs, suspended its Business Employment Incentive Program in February because of the state's budget crunch. The former Governor of Alabama, Don Siegelman, once an ardent proponent of corporate incentives, became an anti-subsidy crusader by the end of his term. State tax revenues from corporations in Alabama dropped by nearly half in 2001; 619 companies in the state paid no taxes at all in 2000, the result of past cut-throat incentives negotiations. Siegelman began barnstorming churches and unions, attacking corporate tax dodgers, calling them "Enrons and WorldComs."

An interesting connection. Even if most Americans are not aware that subsidy shakedowns debilitate local budgets, they do know the names of the corporate buccaneers who have wrecked retirement plans and kicked the slats out of an already wobbly economy. An agile accountability movement, able to leverage community benefits from economic development incentives--or block them, as the situation demands--has the potential to take advantage of this political opportunity, bringing a skeptical focus to local development and opening the lens to reveal the bigger picture as well.

About Bobbi Murray
Bobbi Murray lives in Los Angeles and writes frequently on economic justice issues. **more...**