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How Corporate Giveaways Hurt American Communities

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Although the mainstream press rarely mentions it, corporate subsidies given by U.S. state and local governments are huge – and getting bigger. In the aftermath of the recent recession, such giveaways have grown as locations throw more and more money at any business project that promises to “create jobs.” Research shows this to be a false promise. Corporate subsidies mainly drain government coffers in a game of job creation musical chairs. Cutting these giveaways would be a good place to start to revive the fortunes of state and local governments.

Subsidies are Huge – and Ineffective

Subsidies given by governments hoping to entice business investments come at a huge cost – overall draining governments of about $70 billion per year, enough to hire 1.4 million state and local government workers at average annual salaries of $50,000. The jobs that could be saved or created equal almost three times the total of state and local government lay-offs since the beginning of the 2008-09 recession.

Beyond their high cost, research studies show that corporate giveaways harm the U.S. economy in several ways. They are inefficient, directing investments into the wrong locations or the wrong industries, thereby slowing the country’s economic growth. In addition, these subsidies increase inequality, because they take payments from average taxpayers and funnel them to the rich. Many subsidized projects also poison the environment and shift costs for clean-ups or mitigation onto taxpayers.

Despite the harm they cause, government subsidies to attract corporate investments are rising at uncontrolled rates – and unprecedentedly huge incentive packages have been handed out very recently. As Good Jobs First recently reported in its “Megadeals” report about subsidy packages above $50 million, “since 2008, the average frequency of megadeals per year has doubled (compared to the previous decade) and their aggregate annual cost has roughly doubled as well, averaging around $5 billion.”

Corporate Subsidies in Europe and the United States

Excess in U.S. megadeals comes into even sharper focus when we look at the European Union. Governments in Europe compete for corporate investments, too, but European Union rules prevent bidding wars and limit giveaways. According to European rules, if one country, say, France, wants to give a subsidy, it has to notify the European Commission – providing great transparency – and receive Commission approval that it is following Union rules that limit the size of subsidies and direct them to less privileged countries and regions. In the United States, by contrast, many subsidies are not transparent and almost anything goes on the size and location of giveaways.

The sheer scale of U.S. subsidies far outpaces those in Europe. In just the years 2010-2014, the United States had 74 subsidy packages over $100 million, the European Union six. The largest EU package was about $285 million compared with $8.7 billion for Boeing in the United States..

To see how subsidies work differently in Europe and the United States, we can examine the example of one major corporation, Global Foundries. In 2006, this corporation announced that it would build a chip plant in Malta, New York, a small town near Albany where it received at least $1.1 billion in subsidies – equivalent to 35% of the cost of the investment. Global Foundries has also has built three facilities in Dresden, Germany (a city formerly in East Germany). The first subsidy happened under earlier, relatively loose European Union rules and was the largest post-2000 subsidy in the Union, equivalent to about $736 million, 22.67% of the total investment. But subsequently new, tougher European Union rules went into effect, limiting 2007 and 2011 Global Foundries investments in two newer plants to get less than 12% in subsidies. This was true even though the most recent subsidy to Global Foundries worth about $285 million was still the sixth largest package in the European Union since 2000. Same company, different outcomes: clearly the rules followed in Europe make a difference.

The United States lacks European-style rules limiting the race to give ever larger subsidies to corporations, because the U.S. Constitution gives the states a lot of fiscal autonomy. Only one serious legal argument has been made to limit state subsidies as a violation of the Constitution's commerce clause, and the Supreme Court rejected that claim in 2006.

The Road to Improvement

Constitutional limits aside, Americans could take steps to limit ineffective corporate giveaways.

- ***Demand full transparency.*** According to Good Jobs First, online disclosure of giveaways and their recipients has spread from 23 states in 2007 to 46 states plus the District of Columbia today. But reports are often incomplete and local subsidies are rarely disclosed at all.

- ***Outlaw job piracy***, where one state gives subsidies to move an existing operation. This happens all the time on the Kansas/Missouri border, where companies get millions to just five or ten miles within the Kansas City metropolitan area. No new jobs are created; companies have incentives to engage in blackmail.

- ***Abolish subsidies to retail stores***, except in neighborhoods meeting strict definitions of economic distress. A study by St. Louis' regional planning agency found that local governments gave $2 billion in retail subsidies from 1990 to 2007, but despite promised jobs in new or refurbished malls, the entire area gained only 5400 retail jobs from 1990 to 2007, a rate of growth entirely attributable to growth in population and income over that 17-year period.

Overall, corporate giveaways do not work to boost development. State and local governments spend billions every year to shift the location of jobs, but their efforts cancel each other out and drain needed public resources. Given U.S. governmental fragmentation, it will be hard to reverse this harmful process. But the benefits would be huge if taxpayer money could be redirected to education and infrastructure programs that benefit entire communities – and make them more attractive for existing businesses and future business investments.

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