

Notes

Introduction

1. Kenneth Thomas estimated total state and local subsidies at \$48.8 billion as of 1996, and many states have enacted new subsidies since then. (*Competing for Capital: Europe and North America in a Global Era* [Georgetown University Press, 2000].) Peter Fisher and Alan Peters conservatively estimated total subsidies at \$50 billion. (“The Failures of Economic Development Incentives,” *Journal of the American Planning Association*, Vol. 70, No. 1, Winter 2004.)

Chapter One

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Way to Tax,” May 14, 1995. William H. Swanson, Raytheon senior vice president, “The Fight for Manufacturing Jobs,” *Boston Globe* op-ed, February 21, 1995. John Gill, “Tax Shortfall Casts Doubt on Raytheon Aid,” *Lawrence Eagle-Tribune*, March 15, 1995.

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Chapter Two

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10. Ady, "Discussion," p. 79.
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35. Cabela's quotes and facts from its Initial Public Offering prospectus, Securities and Exchange Commission, Form S-1, 2004, p. 59.
36. *Ibid.*, p. 44, F-10.
37. *Ibid.*, p. 15.
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39. *Ibid.*
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41. Cabela's IPO prospectus, p. 63.

Chapter Three

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2. Jay Hancock, "Ban on Site-Consultant Deals May Return to Haunt State," *Baltimore Sun*, December 19, 2001.
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Corporate Mover,” *New York Times*, June 24, 1977. Associated Press obituary of Leonard Yaseen, “Former Fantus Co. Executive, Realty Consultant to New York,” *Chicago Tribune*, October 10, 1989.

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8. White proposed the Act after much careful legal work, because the state’s constitution, like many others, included prohibitions against public monies aiding private firms or individuals. The state’s supreme court had even struck down a local bond deal for a garment plant a few years before. Besides drawing on New Deal rhetoric, White’s bill drafters found a U.S. Supreme Court precedent: a decision upholding North Dakota’s system of state-sponsored banks, grain elevators, and warehouses. Creating employment was a legitimate way to serve the general welfare, North Dakota had successfully argued. *Ibid.*, pp. 13–14.
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 24. Vartanig V. Vartan, “Consultant Says He Is Making Studies of Other Areas,” *New York Times*, February 17, 1967, p. 37. Alfred L. Malabre, Jr., “New York City: The Crux of the Crisis,” *Wall Street Journal*, November 1, 1965. “Labor Letter,” *Wall Street Journal*, January 30, 1968.
 25. Joseph B. Treaster, “Company That Finds Plant Sites Moving Headquarters from City,” *New York Times*, December 16, 1969, p. 51. “Varied Urban Decay Cited by Relocator Who Moved,” *Wall Street Journal*, November 10, 1970, p. 8. After leaving New York, the Fantus Company resided in at least three New Jersey jurisdictions: South Orange, Millburn, and Princeton. However, Yaseen apparently maintained his own office in Manhattan until he retired. In 2000, four years after Fantus was acquired by Deloitte & Touche, its New York-area office was relocated back in New York City, where it could be more integral

- to the parent company's corporate real estate practice. The Fantus headquarters remained in Chicago. ("Relocation Strategist Comes Full Circle: Fantus Moves Back to New York," *Site Selection*, May 2000, p. 514.)
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35. The Corporation for Enterprise Development et al., *Taken for Granted: How Grant Thornton's Business Climate Index Leads States Astray*, November 1986.
36. Corporation for Enterprise Development et al., *Taken for Granted*, p. 87. Today, there are many competing business climate surveys issued annually; for a sample list, go to <http://www.dc-intl.com/RCRatingsGame.cfm>.
37. Richard Florida, *The Rise of the Creative Class: And How It's Transforming Work, Leisure, Community and Everyday Life* (New York: Basic Books, 2002).
38. Keon Chi, "The States and Business Incentives: An Inventory of Tax and Financial Incentives," Council of State Governments, 1989.
39. Fantus went through four sets of ownership, and along the way, many of its staff left to work for competitors. Yaseen and his fellow partners sold the firm to Dun & Bradstreet in 1967. According to longtime Fantus executive Robert Ady, its next two owners neglected a valuable asset. D&B clumsily tried to merge Fantus with two unrelated firms it had acquired and then took a hands-off approach. PHH Corporation bought Fantus in 1983, hoping to create synergy with its corporate employee relocation business. But PHH did transactions, not consulting, and the benefits did not appear. In the early 1990s, PHH tried to remold Fantus into a general-purpose management consultancy, ignoring its unique value. When that experiment failed, neglect followed, causing many Fantus staffers to leave and strengthening its competitors. PHH auctioned Fantus in 1996, and Deloitte & Touche, which had a modest site selection practice based in Chicago that included some former Fantus staffers, bought it. (Robert Ady, "On Being Acquired," *Journal of Management Consulting*, May 1997, pp. 16–20.)

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42. Ibid. There are also several site location trade magazines; they often blur the lines between infomercials and journalism. *Site Selection* magazine is perhaps the best-known; it issues the annual Governor's Cup Award for the state that announces the most big deals; it also issues an annual business climate ranking based on a blend of data about new facilities and an opinion survey of executives. The magazine also publishes perhaps the most useful publicly available annual listing of state subsidy programs. *Site Selection's* parent, Conway Data, Inc., has a partnership with the International Economic Development Council, the largest professional association of public and private-sector economic developers (<http://www.developmentalliance.com>), that exemplifies the explosion of web-based data about locations. *Expansion Management* rates education (2,800 secondary school districts). *Area Development* publishes various surveys, including an annual site selection corporate survey and an annual inventory of incentives. *Plants Sites & Parks* offers fairly substantial journalistic content and also conducts an annual survey, which is a blend of quantitative measures and executives' picks. *Business Facilities* seems to focus more on the nitty-gritty aspects of managing a business when it moves or expands, not just location-choice issues. *Corporate Location* concentrates on European and other international areas.
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44. "Economic Development Credits and Incentives Bright Idea," Grant Thornton website, <http://www.grantthornton.com/content/92346.asp>.
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47. Christopher Swope, "Site Seers," *Governing*, November 2001.
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54. Anderson, "Disinterest in Conflict."
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56. "Turning Your State Government Relations Department from a Money Pit into a Cash Cow."
57. Chesser, "On Milking a State's 'Cash Cow.'"
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Chapter Four

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5. Michael Mazerov, "The 'Single Sales Factor' Formula for State Corporate Taxes: A Boon to Economic Development or a Costly Give-away?" Center on Budget and Policy Priorities, September 2001. Daniel Hassell, Pennsylvania Department of Revenue, "The Revenue Effects of a Single Sales Factor Apportionment Formula on the Pennsylvania Corporate Net Income Tax." Paper to the Federation of Tax Administrators Revenue Estimation and Tax Research Conference, September 21, 2004.
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9. Mazerov, "The 'Single Sales Factor' Formula."
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- pp. 35 and 53, at <http://www.massbudget.org/article.php?id=266>. Andrew Reschovsky, “Mass. Fiscal Crises Hit Education Hard,” *Boston Globe* op-ed article, January 31, 2004.
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- from New York to Cobb County,” *Atlanta Journal and Constitution*, February 17, 1998. Karen Setze, “AG: Special Corporate Tax Breaks Should Stay Secret,” *State Tax Notes*, August 13, 2001, p. 466. Meredith Jordan, “Georgia’s Corporate Tax Giveaway,” *Atlanta Business Chronicle*, September 28, 2001.
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 37. UDITPA’s three factor formula is, of course, more complicated than as I summarize it here. It exempts banks and utilities, for example. It allows states to directly claim income from in-state rents and capital gains. It even allows companies to appeal their tax bill if the three factors do not fairly reflect their business. And it does not try to tell states how to define their tax base; that is, how to define taxable income, or at what rate to tax it. But for the big issue of how to divvy up, or apportion, all other corporate income for a multistate company, it was a major breakthrough. For the text with accompanying commentary, see “Uniform Division of Income for Tax Purposes Act,” drafted by the National Conference of Commissioners on Uniform State Laws and approved at its annual conference, New York, July 8–13, 1957. For additional contemporary interpretation of UDITPA, see also William J. Pierce, “The Uniform Division of Income for State Tax Purposes” in *Taxes*, Vol. 35, No. 10, p. 747 (1957). The MTC’s founding executive director, Eugene Corrigan, also points out that adherence to UDITPA’s

- rules was also critical to making taxation uniform (correspondence, December 9, 2004).
38. Transcript of Proceedings in Committee of the Whole, Uniform Allocation and Apportionment Act, Wednesday, August 22, 1956.
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 40. 15 USCS §§ 381–384.
 41. This and other MTC history from Eugene Corrigan, executive director of the Multistate Tax Commission from 1969 to 1987, interview November 4, 2004.
 42. Eugene Corrigan, September 9, 2004 correspondence.
 43. *U.S. Steel Corp. v. Multistate Tax Commission*, 434 U.S. 452 (1978).
 44. Corrigan interview.
 45. The *U.S. Steel* case and other attacks on the MTC are recounted by its first executive director, Eugene Corrigan, in the MTC’s March 1989 newsletter, *Review*, in a farewell column after his twenty years of work. He concluded: “The increased concern for fairness is a legacy I hope will characterize the MTC and its participating personnel throughout its existence.”
 46. See COST’s account of its history at http://www.statetax.org/template.cfm?Section=About_COST.
 47. Corrigan interview.
 48. Corrigan interview and correspondence.
 49. Corrigan correspondence, December 9, 2004.
 50. *Container Corp. v. Franchise Tax Bd.*, 463 U.S. 159 (1983).
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 52. COST website Meetings and Events page, http://www.statetax.org/Content/NavigationMenu/Meetings_and_Events/Meetings_and_Events.htm. Joseph R. Crosby, COST Legislative Director, testimony before State of Vermont Ways and Means Committee, March 25, 2004, online

at http://www.statetax.org/Template.cfm?Section=By_State3&template=/ContentManagement/ContentDisplay.cfm&ContentID=5415.

53. Michael Mazerov, "Proposed 'Business Activity Tax Nexus' Legislation Would Seriously Undermine State Taxes on Corporate Profits and Harm the Economy," Center on Budget and Policy Priorities, October 4, 2004, p. 2.
54. MTC Chair Elizabeth Harchenko, as quoted in Mazerov, "Should New Limits on State Corporate Profits Taxes Be a Quid Pro Quo for the States' Ability to Tax Internet Sales? The 'Business Activity Tax Nexus' Issue," Center for Budget and Policy Priorities, September 4, 2001, p. 7.
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56. These discussions derive from Mazerov, "Closing Three Common Corporate Income Tax Loopholes."
57. Technically, Massachusetts has a throwback rule, but it is written in an unusual way that makes it easy for companies to avoid. Mazerov, "Closing Three Common Corporate Income Tax Loopholes."
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34. Shailagh Murray, "Business-Friendly Alabama Puts Brakes on Tax Breaks," *Wall Street Journal*, September 30, 2002.
35. LeRoy, "The Terrible Ten."
36. Ibid.
37. Ibid.
38. Robert S. McIntyre et al., "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," pp. 12, 118. Institute on Taxation and Economic Policy, January 2003.
39. Interestingly, Bill Gates, Sr., father of the Microsoft cofounder, is an

- active crusader for preserving the federal estate tax; he even coauthored a book on the issue, *Wealth and Our Commonwealth*.
40. Robert McIntyre computations from the U.S. Census.
 41. Ibid.
 42. Robert McIntyre and T. D. Co Nguyen, "Corporate Income Taxes in the Bush Years," September 2004, Citizens for Tax Justice and the Institute on Taxation and Economic Policy.
 43. McIntyre and Nguyen, "Corporate Income Taxes in the Bush Years." Employment statistics from U.S. Bureau of Labor Statistics.
 44. McIntyre and Nguyen, "Corporate Income Taxes in the Bush Years."
 45. Ibid.
 46. Robert S. McIntyre, correspondence, January 4, 2005.
 47. Lawrence Mishel et al., *The State of Working America 2004–2005* (Ithaca, NY: ILR Press, 2005), pp. 119, 138, 139, and 141.
 48. Greg LeRoy, Dan Swinney, and Elaine Charpentier, *Early Warning Manual Against Plant Closings*, Midwest Center for Labor Research, 1986 and 1988.

Chapter Nine

1. The law's formal name is the Emergency Planning and Community Right-to-Know Act of 1986.
2. The eleven states are Connecticut, Illinois, Louisiana, Maine, Minnesota, Nebraska, North Carolina, Ohio, Texas, Washington, and West Virginia. They vary widely in the quality and completeness of their disclosure. You can see details about each state's disclosure law in chapter 3 of *No More Secret Candy Store: A Grassroots Guide to Investigating Job Subsidies*, at www.goodjobsfirst.org/research/ch3.pdf. At least four states—Minnesota, Texas, Ohio, and North Carolina—put some of their disclosure data on the Web, and Illinois is slated to start in mid-2005.
3. Francis X. Quinn, "Gov. King Quietly Signs BIW Tax Bill," Associated Press, June 12, 1997.
4. Good Jobs First lists the 18 states using clawbacks, at <http://www.goodjobsfirst.org/pdf/clawbacks.pdf>.
5. Anna Purinton et al., *The Policy Shift to Good Jobs: States, Cities and Counties Attaching Job Quality Standards to Economic Development Subsidies*, Good Jobs First, 2003.
6. Though we have educated estimates about the total fifty-state cost of

subsidies, many states still have poor accounting—or no accounting—of their subsidies. That’s because the Government Accounting Standards Board (GASB), the official body that lays out uniform accounting formats that public agencies have to use to satisfy bond investors and the credit ratings agencies, has never mandated a full accounting of tax spending for economic development. The National Association of State Budget Officers has not engaged on the overall issue of tax spending for two decades; see “Tax Expenditure Reporting: Closing the Loophole in State Budget Oversight,” National Association of State Budget Officers, December 1985.

7. Matt Hull et al., “Budgeting and Economic Development Performance: A Guide to Unified Development Budgets,” Corporation for Enterprise Development, November 2000.
8. The law is Title 23 U.S.C. 158, and the Supreme Court decision upholding it was *South Dakota v. Dole*, 483 U.S. 203 (1987).
9. For more on smart growth and good jobs, see Greg LeRoy and Sara Hinkley, *Smart Growth and Workforce Development*, Good Jobs First, 2000, at <http://www.goodjobsfirst.org/pdf/workforce.pdf>; Greg LeRoy, *Talking to Union Leaders About Smart Growth*, Good Jobs First, 2001, at <http://www.goodjobsfirst.org/pdf/talking.pdf>; and Philip Mattera and Greg LeRoy, *The Jobs Are Back in Town: Urban Smart Growth and Construction Employment*, Good Jobs First, 2003.
10. Maryland Economic Growth, Resource Protection, and Planning Act of 1992.
11. *Cuno v. DaimlerChrysler*, U.S. Court of Appeals for the Sixth District, Case No. 01-3960, ruling filed September 2, 2004.
12. Peter Enrich, “Saving the States from Themselves: Commerce Clause Constraints on State Tax Incentives for Business,” *Harvard Law Review*, December 1996.
13. Sources for this chapter include Arlene Dohm, “Gauging the Labor Force Effects of Retiring Baby-Boomers,” *Monthly Labor Review*, U.S. Department of Labor, July 2000; David Ellwood, “The Sputtering Labor Force of the 21st Century: Can Social Policy Help?” National Bureau of Economic Research Working Paper 8321, June 2001 at www.nber.org/papers/w8321; Lynn A. Karoly and Constantijn W.A. Panis, “The 21st Century at Work,” RAND Corporation MG-164-DOL, 2004 for the U.S. Department of Labor at www.rand.org/pubs/monographs/2004/RAND_MG164.pdf; and Jessica R. Sincavage,

- “The Labor Force and Unemployment: Three Generations of Change,” *Monthly Labor Review*, U.S. Department of Labor, June 2004.
14. Committee for Economic Development, *New Opportunities for Older Workers*, 1999, p. 7.
 15. “Too Many Workers? Not For Long,” *Business Week*, May 20, 2002.
 16. Ellwood, “Sputtering Labor Force,” p. 16. Some people may work a little longer. The age at which you get a full Social Security benefit is getting phased back; by 2022, it will be age 67. People with inferior defined contribution pensions may need to supplement their income. And Social Security recipients can now earn all they want before age 69 without losing benefits (after reaching “full retirement age”). However, the average retirement age of 62 to 63 has remained quite steady; more than two thirds of all workers—and more than three fourths of women—have left their jobs by age 65. Even if a few percent more boomers work past age 62, as is projected, there will still be a huge exodus. (Howard N. Fullerton, Jr. and Mitra Toossi, “Labor Force Projections to 2010: Steady Growth and Changing Composition,” *Monthly Labor Review*, U.S. Department of Labor, November 2001. Murray Gendell, “Retirement Age Declines Again in 1990s,” *Monthly Labor Review*, October 2001.)

It’s not just a matter of the quantity of workers who will be available; of equal concern is the quality of their skills and whether those skills match what the economy needs. Even if the total-worker squeeze turns out to be less severe than some people predict, many observers—from differing political perspectives—argue that the skills needed in our economy are changing faster than our ability to supply them. They advocate big increases in education and workforce development efforts. (See, for example, *America’s Choice: High Skills or Low Wages*, report of the Commission on the Skills of the American Workforce, National Center on Education and the Economy, 1990, and writings and statements of people as different as Alan Greenspan and Richard Florida.)

Finally, some observers predict that an increase in immigration will cushion the impact of the boomers’ departures. The rate of immigration into the United States has increased greatly in the last two decades, and traditionally we have attracted many highly skilled immigrants. However, many other countries are lowering their entry barriers to attract high-skill immigrants, whereas the Department of Homeland Security is making entry to the U.S. more difficult in the post-September 11

era. And broad public disapproval of U.S. foreign policy in many nations is causing some immigrants, including promising entrepreneurs and graduate students, to avoid this country. If that trend holds, it would be a real blow: more than half of foreign-born scientists and engineers who receive their doctorates in the United States stay here, and Chinese and Indian immigrants founded almost a third of the new Silicon Valley businesses in the 1990s. (Electronics Industries Alliance, "The Technology Industry at an Innovation Crossroads," March 2004. Thomas L. Friedman, "Losing Our Edge," *New York Times*, April 22, 2004. Richard Florida, "Creative Class War: How the GOP's Anti-Elitism Could Ruin America's Economy," *Washington Monthly*, January 2004. National Science Foundation, "Science and Engineering Indicators 2004," Vol. 1, pp. 3-37, 3-38.)

17. U.S. Department of Health and Human Services, Health Resources and Services Administration, "Projected Supply, Demand and Shortages of Registered Nurses: 2000–2020," July 2002. American Health Care Association, "Results of the 2002 AHCA Survey of Nursing Staff Vacancy and Turnover in Nursing Homes," February 12, 2003.
18. Joint Commission on Accreditation of Healthcare Organizations, "Health Care at the Crossroads: Strategies for Addressing the Evolving Nursing Crisis," August 2002. Other observers blame managed care for causing many nurses to quit, making the shortage worse. Labor unions and public officials have responded by advocating for legislation to require nurse staffing plans or mandatory nurse-to-patient ratios. (Linda H. Aiken et al., "Hospital Nurse Staffing and Patient Mortality, Nurse Burnout, and Job Dissatisfaction," *Journal of the American Medical Association*, October 23/30, 2002.)
19. Aspen Institute, Domestic Strategy Group, "Grow Faster Together. Or Grow Slowly Apart. How Will America Work in the 21st Century?" 2003.
20. Committee for Economic Development, *New Opportunities for Older Workers*, 1999, p. 1.
21. The National Association of Manufacturers, the Manufacturing Institute, and Deloitte & Touche, "Keeping America Competitive: How a Talent Shortage Threatens U.S. Manufacturing," white paper, April 2003.
22. National Science Foundation, "Science and Engineering Indicators 2004," Vol. 1, p. 3-32. U.S. General Accounting Office, "Major Management Challenges and Program Risks: National Aeronautics and Space Administration," January 2003, GAO-03-114.

23. Robin Spence and Brendan Kiel, "Skilling the American Workforce 'On the Cheap,'" The Workforce Alliance, September 2003, at <http://www.workforcealliance.org/twa-funding-analysis-09.pdf>.
24. Ibid.
25. Ibid.
26. American Society of Civil Engineers, "2005 Report Card for America's Infrastructure," at <http://www.asce.org/reportcard/2005/page.cfm?id=103>. 2001 grades at <http://www.asce.org/reportcard/index.cfm?reaction=full&page=2>. 1988 data provided by ASCE staff.
27. Ibid.
28. Ibid.