Connecticut Debate Association

January 11, 2014

Fairfield Warde High School, King School and Ridgefield High School

Resolved: States and municipalities should not provide economic subsidies or incentives to corporations.

Luring Business: Connecticut's Company Aid Shows a Jump

By Joseph De Avila , 3 December 2012, The Wall Street Journal

HARTFORD, Conn. -- Gov. Dannel Malloy has overseen a 70% increase in state assistance to retain or bring new companies to the state during his less than two years in office compared with the previous eight years combined, a Wall Street Journal analysis shows.

While state Republicans and some academics have questioned the cost and execution of Mr. Malloy's job-creation initiatives, the Democratic governor took office in 2011 vowing to shake up the state's economic-development efforts.

During Mr. Malloy's first 21 months as governor, the state allocated $833.2 million in a mix of tax credits, loans and grants to 365 companies, according to the Department of Economic and Community Development. In return, the companies promised to create or retain 31,967 jobs.

Under Mr. Malloy's two Republican predecessors -- John Rowland and Jodi Rell -- the state allocated $492.3 million from 2002 to 2010 in financial assistance to 118 companies. Those firms pledged to create or retain 34,672 jobs.

A big portion of the money under the Malloy administration flowed to mega-projects such as Jackson Laboratory, a genetics research nonprofit based in Maine that got $291 million to build a new 180,000-square-foot laboratory in Farmington and create 600 jobs. That large deal, for which the state is financing the entire construction of the lab, isn't typical of the state's past approach.

Officials with the Malloy administration say the increase in economic-development aid is temporary, designed to help lift the state out of its economic slump. The state ranked 40th in the U.S. for 2012 job growth, according to the Bureau of Labor Statistics. In 2011, it ranked 44th.

When Mr. Malloy came into office, the state unemployment rate was 9.3%. It fell to 7.7% during March and April 2012 but bounced back up to its current rate of 9%.

Mr. Malloy said Connecticut had lost jobs to New York and New Jersey for too long.

"Is it worth it? Yes," Mr. Malloy said. "For years, certainly since 9/11, Connecticut has been on the losing end on most of those transactions as opposed to on the winning end of those transactions, and I decided that we needed to make it pretty clear that we were going to compete again."

State Republicans argue that the Malloy administration's reliance on state aid hurts Connecticut and is ineffective. "We are concerned, frankly, with Gov. Malloy's aggressive use of incentives," said Connecticut House Republican Leader Lawrence Cafero. "We all want to invest in job creation and there is a smart way to do it and a wrong way....A lot of the money has been spent for little return."

Mr. Cafero said high state income taxes have kept businesses away and added that job-training assistance for small businesses could yield quicker and more effective results.

State incentives for mega-projects throughout the U.S. have grown in recent years, and Connecticut has been at the forefront, said Kenneth Thomas, an associate professor of political science at the University of Missouri-St. Louis. "Connecticut is indeed on the more ambitious end," he said.

In one deal that drew criticism, UBS AG received $20 million in incentives in 2011 to keep a minimum of 2,000 employees in Stamford after news emerged that the company was touring office space in New York City.

In October, the bank said it would lay off 10,000 workers worldwide. A spokeswoman with UBS AG said the company will honor its 2,000-employee commitment in Connecticut.

The UBS deal sends signals to companies that they should threaten to leave to get state financial assistance, Mr. Cafero said.

The Malloy administration argues that offering aid is better than a jobs exodus. "The alternative is to not compete. And if you don't compete then you can't win. And If you can't win, then everyone will be asking, 'Why are you not competing as companies leave the state in droves?'" said senior adviser Roy Occhiogrosso.

The state's job-creation strategy has focused on industries such as bio-tech, high-tech manufacturing, sports entertainment and financial services. The Malloy administration has also made more assistance available for small companies through its Small Business Express program that has provided 305 firms with $42.3 million in aid. Those companies have promised to create or retain nearly 4,000 jobs.

Mr. Malloy's most ambitious program, known as First Five, is targeted at large corporations willing to create at least 200 jobs. The program has allocated $339.8 million to nine companies that promised up to 4,748 new jobs and to retain 11,087 positions. Companies include Cigna, NBC Sports and ESPN.

One drawback, however, is that less than a third of the jobs associated with First Five program are new positions, said Mr. Thomas of the University of Missouri-St. Louis. "A lot of these jobs aren't really new within the Connecticut border," he said.

The state's past experience with economic development deals also show that such arrangements carry risks. Of 59 companies that received aid before Mr. Malloy came into office, 26 of them failed to meet job goals, according to state audits.

These 26 companies collectively fell short of their job goals by 849 jobs.

"As far as I know, they are largely driven by the recession," said Catherine Smith, commissioner of the Department of Economic and Community Development.

The other 33 companies that got aid exceeded their job goals by 1,074 jobs.

Audits for companies that received assistance under Mr. Malloy aren't yet available. Some of these companies have as long as 10 years to meet their job-creation goals.

In cases where companies fall short, the state has protections in place to stem losses, Ms. Smith said.

"If they don't deliver, they are not going to get access to the tax credits. We are absolutely confident that over time these will be very positive investments for the state," she said.

Cigna, one of the First Five companies, was awarded $50 million in tax credits and $21 million in loans for increasing its Connecticut workforce by 200 employees to a total of 4,080 positions. The company recently announced that it would lay off 200 employees in the state, but a spokesman said Cigna would meet its job-creation goals by July 2013.

If Cigna fails to meet its job goals by then, it will repay a penalty of $5,144 per employee under its goal, state officials said. Its tax credits would also get reduced by $7,348 for every employee under its goal.

The $291 million Jackson Laboratory deal also came under criticism for the amount of money involved. But it was also a victory for the Malloy administration, because the state was able to beat out several others that also were vying for the nonprofit organization.

"The governor and his team were very aggressive in their outreach with us," said Mike Hyde, vice president for external affairs for Jackson Laboratory. The nonprofit had been discussing deals with Texas, Utah, Florida and other states that Mr. Hyde declined to identify. "You have to find someone willing to make it happen financially."

Why Some State Incentives for Business Work -- And Others Don't

By Tom Foley and Ben Zimmer, 9 February 2013, The Wall Street Journal

Every state does it, to one degree or another: pays incentives to private companies to keep jobs in-state. Supporters say this is necessary for job creation, detractors call it corporate welfare, and nationwide it costs more than $80 billion a year. So when are such incentives sound economic policy, and when do they merely serve certain firms, lobbyists and politicians?

Jobs created with incentives are good when they are net contributors to the economy. They are bad **--** handouts, effectively **--** when the incentives cost the state more than the jobs contribute back to the economy.

The Connecticut Policy Institute has identified three criteria for determining when job incentives go from good to bad:

Does the total cost of the incentive exceed the amount that would be paid back through incremental tax revenues over 10 years? In most states, this threshold is crossed when the total cost of the incentive rises above 50% of the annual compensation for jobs kept or created.

Do the incentives provide only for jobs that would not otherwise come to the state, or would otherwise leave?

Do the incentives promote jobs that will remain viable and stay in-state after the incentives expire?

Some state incentive programs meet these criteria. In October 2012, Kentucky offered Berry Plastics $10 million to refurbish and reopen a manufacturing plant in Madisonville, about 150 miles southwest of Louisville. Berry committed to bring 400 jobs to Kentucky, a reasonable rate of $25,000 per job. The plant had closed in 2011 because the products it produced could be more competitively produced elsewhere. But the refurbished plant will produce a different product that can be competitively produced in Kentucky.

Most incentive programs aren't so effective. In 2011, Connecticut agreed to pay The Jackson Laboratory, a genetics research institute, $300 million in exchange for a promise to bring 300 new jobs to Connecticut. That cost a whopping $1 million per job. The same year, Connecticut paid Alexion Pharmaceuticals $46 million to commit to hiring 200 new employees. At $230,000 per job, this still far exceeds the threshold for a sound investment in the state's economy.

In 2007, Michigan announced a film-industry incentive program that would reimburse 50% of production costs spent in the state. The program brought hundreds of jobs to Michigan, according to local records, but when the incentives expired in 2011 the movie producers relocated and the jobs disappeared.

Incentive programs can be problematic even when not targeted at particular companies or industries. Oklahoma's Small Business Capital Formation Incentive Act provides a 20% tax credit for investments in Oklahoma small businesses. In 2009, reported the Oklahoma Tax Commission, the program cost the state $17 million but generated only 21 new jobs.

Connecticut recently passed a Job Expansion Tax Credit awarding businesses a subsidy of up to $32,000 per employee for every new hire between Jan. 1, 2012 and Jan. 1, 2014. This subsidy will induce businesses to hire some employees they otherwise wouldn't, but much of the cost will be wasted paying companies for hires they would have made anyway. Meanwhile, there is no guarantee that any of the new employees will still have jobs once the subsidy expires three years after their date of hire.

If many job incentives are poor public investments, why do states get away with offering them? Because good policy and good politics are often at odds. Politicians want to be re-elected, and a solid record on nominal job growth -- regardless of the cost -- tends to be more important to officials' re-election prospects than is the prudent management of public funds. That is one reason most such programs are structured to yield job creation immediately while deferring the cost of the incentive into the future -- preferably when other politicians will be in office.

State competition for jobs should be a good thing that promotes fiscal stability, low tax rates, dynamic labor markets, balanced regulatory environments and responsible investment in infrastructure and human capital. These -- and not one-time tax breaks -- are the factors that are most likely to attract employers and drive good jobs policy.

Mr. Foley, the 2010 Republican nominee for governor of Connecticut, is founder of the Connecticut Policy Institute, of which Mr. Zimmer is executive director.

Pitney Bowes Signs Up For CT First Five Program

Economic Development Blog, NOV 21, 2013

Stamford, Connecticut-based Pitney Bowes (NYSE: PBI) is doubling down on its presence in Connecticut with an expansion plan that includes creation of new jobs, investments in training and technology, and relocation to a new headquarters.

Pitney Bowes will invest $25 million for the expansion, and will create 200 new jobs over the next five years. The company already has 1,600 existing employees in Connecticut.

The investment will be spread around between a new headquarters in Stamford, business operations in Shelton, and a technology center in Danbury.

Pitney Bowes' agreement with Connecticut makes it the eleventh company to take up the State's offer of job creation incentives under the "First Five" Program.

Pitney Bowes is getting an incentives package of around $27 million. This includes a $15 million loan, which has a $10 million forgivable component if the company sticks by its commitment to create 200 jobs over the next five years.

The company is getting $1 million for capital improvements and another $1 million as a sales and use tax exemption. Pitney Bowes will also be eligible for up to $10 million in urban and industrial site reinvestment tax credits.

Pitney Bowes' addition to the "First Five" companies was the result of their decision to relocate their headquarters to a smaller facility. New York was interested in recruiting Pitney Bowes, and Connecticut had to come up with a package of incentives good enough for retaining the new headquarters of the Fortune 500 company and for rewarding the $25 million expansion and creation of 200 new jobs.

Connecticut launched the First Five Program in 2011, offering a mix of the state's best incentive and tax credit programs to elite businesses in Connecticut that undertake projects to create 200 new full-time jobs in either two years or five years.

Companies approved by the Connecticut Department of Economic and Community Development (DECD) to join the program would continue to be eligible for tax credits for jobs created over and above the minimum requirement of 200 jobs.

The first company to take up the offer was Cigna (NYSE:CI) which was approved for incentives worth $50 million for creating 200 jobs in two years and pushing their workforce in the state to over 4,000.

Other companies which have subsequently signed agreements with the State of Connecticut under this program include ESPN, NBC Sports, Alexion Pharmaceuticals, CareCentrix, Sustainable Building Systems, Deloitte, Bridgewater, Charter Communications, The Navigators Group, and now Pitney Bowes.

Report: State Subsidies Costly, Blunt, And Poorly Monitored

by Christine Stuart | Oct 25, 2011 4:30am | CTNewsJunkie

As the General Assembly prepares to give $291 million to Jackson Laboratory to build a research facility in Farmington, a nonprofit, nonpartisan research center released its own report Monday detailing how few jobs the state created over the years with similar economic incentive packages.

"Connecticut has grown increasingly aggressive in its use of economic development subsidies, also called 'incentives,' spending hundreds of millions of dollars per year in foregone revenue to attract business," two researchers from Good Jobs First concluded. "The number of subsidy programs has grown over the years, while qualifying criteria have been eased multiple times."

The report, released less than 48 hours before the Wednesday special session on job creation, was commissioned by the Working Families Party, which has been protesting state subsidies the past few weeks.

"As this report shows, we've been spending more and more taxpayer money on corporate tax breaks," Jon Green, executive director of Connecticut Working Families, said. "But those incentives have not generated long-term sustainable job growth. We need to do better."

Calling it an "inefficient, blunt instrument" to create jobs, Thomas Cafcas and Greg LeRoy, who co-authored the report, said several tax credit programs offered by Connecticut have actually been shown to cause more public job losses than they created private sector jobs.

The analysis also doesn't bode well for Gov. Dannel P. Malloy's "First Five" program, which has given large incentive packages to at least three companies since June. Malloy is expect to announce another large incentive package today to get NBC Sports to relocate from New York City.

At best the two researchers said their examination of Connecticut's program based on information from the Department of Economic and Community Development, showed mixed results. They said just over half of the companies audited in 2010 successfully met their job requirements and those that fell short haven't been subjected to the clawback provisions of their particular contract with the state.

RBS Securities in Stamford was one of the biggest winners of Connecticut's assistance program winning $100 million in 2007 in exchange for creating or retaining 1,850 jobs. The company had about 1,685 jobs as of June 30, 2010, but has yet to be audited for compliance. UBS, which is located right next to RBS in Stamford, has received $46 million since 2001. That doesn't count the $20 million it received from the state in August to keep at least 2,000 people at its Stamford location until 2017. As of August UBS said they had about 3,500 employees in Connecticut, which means it could actually shed about 1,500 jobs and still be in compliance with the state.

Aside from UBS, the DECD's 2010 data shows companies in its portfolio have agreed to retain an aggregate 36,837 jobs and create 8,194 new jobs, for a total of 45,031 jobs. Collectively these companies have received approximately $442 million in subsidies through loans, tax credits and grants, for a total subsidy per promised job of about $9,800. But there are other subsidy programs which carry a much higher cost.

Top 25 biggest subsidies

The 10 most expensive subsidies carried an average cost of $98,721 per job. The information taken from the 2010 report, but not in an easy to read format, showed Innovative Arc Tubes Corporation received $1.5 million and created 9 jobs at a cost of $166,667 per job. Twenty-two percent of those jobs were part-time. Asterisk Financial Inc, received $1.08 million and created just seven jobs, and Tenergy Christ Water LLC received $3.175 million and created 34 jobs at a total of $93,382 per job. Composite Machining Experts LLC received $270,000 to create four jobs bringing its per job cost to $67,500.

Of the 70 companies that received assistance from DECD, 39 have fulfilled their job creation obligations, while 31 have not.

"The state does not clarify whether companies that failed their job audits underwent clawbacks or contract modifications," the report found. "The 31 business subsidy contracts that failed to meet contractual job requirements received nearly $86 million in assistance."

The 39 that did fulfill their obligations exceeded them by 3,832 jobs because they pledged to create 18,119 jobs and retained or created 21,951 jobs.

Diageo, Lowe's Home Centers, AT&T, Carla's Pasta, and Innovative Arc Tubes Corp, are just a handful of the companies that failed to meet their obligations under their contracts with the state, but the report found that DECD does not publicly report its use of clawbacks.

"The agency reported penalizing Diageo and FactSet in 2009 and 2007, respectively, for failing to meet job commitments," the report says. "The type and amount of the penalties is unknown."

Cafcas and LeRoy say the state also wrongly assumes all the jobs created by the companies exist because of the assistance.

"If a large share of those jobs would have occurred even without subsidies, as economists say they would tend to, the agency is claiming undue credit for a share of the state's tax revenue," the two concluded.

Even more confusing for the researchers was the fact that some of the tax credits companies use are claimed in their state income tax returns. The Department of Revenue Services seems to rely on the honor system when applying the credit to their income tax reports, the two researchers say in their report.

Table 3. Top 25 Highest Cost-Per-Job Figures for Current Connecticut Subsidies

Rank	Company	Program	Total Assistance	Full-Time and Part-Time Employment on 6/30/10	Percent Part-Time	Cost-Per-Job
1	Innovative Arc Tubes Corporation	MAA	$1,500,000	9	22%	$ 166,667
2	Asterisk Financial, Inc.	JCTC	$1,081,437	7	0%	$ 154,491
3	Incubator Associates, LP	MAA	$500,000	4	0%	$ 125,000
4	Chromium Process Company	MAA	$487,500	5	0%	$ 97,500
5	Tenergy Christ Water, LLC	MAA	$3,175,000	34	3%	$ 93,382
6	Creamery Brook Farms	MAA	$85,000	1	0%	$ 85,000
7	Mercuria Energy Trading	JCTC	$472,500	6	0%	$ 78,750
8	Composite Machining Experts, LLC	MAA	$270,000	4	0%	$ 67,500
9	Greenwich Capital Markets, Inc n/k/a RBS Securities, Inc	URA	$100,000,000	1,685	0%	$ 59,347
10	Diageo North America, Inc	URA	$40,000,000	677	1%	$ 59,084
11	OptiWind Corp.	MAA	$1,500,000	28	4%	$ 53,571
12	Lowe's Home Centers, Inc	URA	$20,000,000	418	1%	$ 47,847
13	Eppendorf Manufacturing Corp.	URA	$5,000,000	122	1%	$ 40,984
14	Composition Materials Co., Inc	MAA	$300,000	8	0%	$ 37,500

"DRS does not publish information about which companies receive subsidizes, the size of the subsidies, or whether these subsidies are actually even creating jobs," the report concludes.

And while the report doesn't mention Malloy's "First Five" program by name it likely would be met with the same criticism as the rest of the tax incentives and subsidies mentioned in the report.

Malloy has already received criticism from some who say those companies that received the incentives already existed in the state and would have invested in their infrastructure without the pricey incentives.

But Malloy has defended the program asking what would have happened if those companies decided to leave the state.

"All in all, let's put it a different way, how about if we lost all of those?" Malloy asked reporters back in August . "How about if Ticket Network had gone to Rhode Island or Massachusetts or New York? The headquarters from CIGNA had decided to go to one of the states that was courting them? Or ESPN doesn't make massive additional investments in Connecticut?"

The state plans on giving upwards of $71 million to CIGNA, $25 million to ESPN, and $8 million to TicketNetwork. The packages are a mix of no-interest loans, tax breaks, and job training grants. UBS was not part of the "First Five" program because it was not agreeing to create any new jobs.

Malloy said as he continues the process of courting and evaluating companies for the tax incentives he's finding the "toolkit" the state has to lure companies to the state "inadequate" compared to other states.

He's hoping the bill negotiated between his administration and both Democratic and Republican lawmakers will help improve the state's offerings.

Corporate welfare in Connecticut is expensive and poorly tracked

By John Stoehr, CT.com, *8:53 a.m. EST, November 16, 2011*

Corporate welfare in Connecticut is expensive, poorly tracked and of dubious merit, according to a new report by Good Jobs First, a think-tank dedicated to corporate accountability in state economic development.

Taxpayer subsidies, like Gov. Dan Malloy's First Five initiative, are supposed to create jobs by incentivizing companies to move, invest and hire in Connecticut. Malloy has already lured four corporations, putting up about $106 million in the bargain so far: CIGNA ($71 million), ESPN ($25 million), TicketNetwork ($8 million) and NBC Sports ($20 million).

But the study found that the cost of some jobs exceeds the state's average yearly income (one subsidy, for instance, cost $169,667 per job) while some companies accept generous taxpayer subsidies but don't create jobs.

"Existing programs [should] be evaluated and the state [should] adopt better transparency of costs and benefits before considering new spending," wrote the report's author, Thomas Cafcas.

Other findings include:

1. Two-thirds of the state's subsidies ($173 million in FY 2011) are not controlled by the Department of Economic and Community Development (DECD), which has more rigorous oversight standards.

2. Forty-four percent of "business assistance" contracts (70 total) failed to meet job creation promises. These companies were awarded about $86 million. DECD does not disclose repaid subsidies. "Taxpayers have a right to know whether a clawback occurred, and if so, how much money was recaptured," Cafcas said.

3. The cost of creating jobs is huge. One subsidy cost $169,667 per job. The top 10 subsidies cost $98,672 per job on average (the average yearly per capital income is about $55,000). One study from 2005 found that 14 of 24 tax credits (58 percent) led to net job losses.

4. State reports show some companies receiving subsidies create low-wage jobs that further burden safety-net programs like Medicaid.

5. Most job creation is about relocating or retaining existing jobs. Eighty percent of subsidies go to businesses threatening to leave or shut down. Seventy percent of tax credits are for jobs that would've been created anyway.

6. Jobs that often count toward fulfilling the promise of state subsidies are often just commuters who don't pay state income taxes, property taxes, or sales taxes. "Shifting jobs in the same metropolitan area doesn't grow regional economies," Cafcas said.

States to Business: Give Our Cash Back

By Jennifer Levitz , 22 April 2011, The Wall Street Journal

To the list of those dinged by states' budgetary woes -- from Illinois vendors to Wisconsin public employees -- add YUSA Corp., an auto-parts supplier in the city of Washington Court House, Ohio.

YUSA received a $35,000 development grant from the state of Ohio five years ago, pledging to expand a plant and employ 816 people. It's only at 445. Recently, Ohio sent the firm a bill, demanding $15,915 back.

This was one of nearly a dozen "clawback" orders signed in two months under the state's new Republican governor, John Kasich. There will be more, says his job-creation director, Mark Kvamme: "We need every single dollar we can get our hands on."

YUSA's view: "Give me a break," says Chris Fairchild, the auto-parts firm's controller. "For crying out loud, we're doing our darnedest. While other local businesses have gone bankrupt or gone to Mexico or other states, we're right here. You'd think there would be a little respect for that."

The budget vise squeezing states and cities is changing the economic-development game. Governments are attaching more strings to their offers of tax breaks, cheap rents and bond deals designed to lure business, and are getting tougher on past recipients who didn't come through.

Officials fret that taxpayers will look askance on any giveaways to business that don't yield a clear benefit, at a time when governments are paring services to save money. "We want to challenge this stuff before the public does. The political environment now is that you have to," says John Garcia, director of economic development in Albuquerque, N.M.

His city, facing a potential budget gap of $35 million or more in the coming year, is taking steps to retrieve $492,399 in past property-tax abatements given to lure a call center, which closed in August and eliminated 670 jobs it had created.

"In the past, we might negotiate that out, but now we're not real quick to want to negotiate anything. We're hurting pretty bad here," Mr. Garcia says.

State and local governments collectively give more than $70 billion a year of incentives to lure business and jobs, primarily through tax breaks, says Kenneth Thomas, an associate professor of political science at the University of Missouri-St. Louis.

Economists have long debated the wisdom of such incentives. Supporters say they help states build diverse local economies and boost employment, ultimately generating more tax revenue than they cost. Detractors say perks sometimes go to businesses that would have come anyway, and in other cases just enable companies to play one region against another for a sweeter deal.

The issue has started to attract limited-government activists, who decry the perks as waste and government overreach. On Wednesday, a tea-party group gathered at the South Carolina Statehouse in support of a Republican-sponsored bill calling for disclosure of how much economic sweeteners cost taxpayers.

"It's the wrong time for these deals; we really don't have a lot of money in the state," said Talbert Black, Jr., state coordinator for the Campaign for Liberty, a tea-party group. "But even in a good time, it's still not right to have the state deciding who gets to pay taxes and who doesn't," he said. "It messes up our free market if the government gets to pick who the winners and losers are."

One downside of the arrangements from the standpoint of businesses, which need to be able to adjust output to demand, is the inflexibility of being locked into a jobs commitment. Many companies weathered the financial crisis by cutting jobs, not creating them. So even as states take a harder line on incentives, amid budget strain, the same weak economy drives companies to press for every possible concession.

"Companies are being forced by shareholders to play the incentive game to get the best deal possible," says Brent Pollina, vice president of Pollina Corporate Real Estate Inc., a site-selection firm that represents businesses planning moves. Ever since the recession struck, he says, "companies are trying to get as much up-front as possible from communities."

A U.S. division of Fraunhofer-Gesellschaft, a German research and development company, regards development subsidies as highly important because, just like public officials, "we are also facing more uncertainty, and are more hesitant to start something new," says Christian Hoepfner, director of technical operations for the firm's American division.

The division received $750,000 in incentives from public officials in New Mexico for a new facility that opens soon. But it had sought more than twice that amount, and the plan took a long series of meetings in New Mexico to negotiate. "In the past, people were more ready to go: 'Hey, great idea. . . . Let's pass right through the system and get it done.' Now it's clearly more difficult to close even a sound plan," Mr. Hoepfner says.

The city of Albuquerque canceled plans to contribute to the package. "Truthfully, we got a little queasy, and we pulled out," says the city's Mr. Garcia. "We're more cautious now."

Even under budgetary strain, states aren't going to cease economic-development spending, because of their need for jobs. Indeed, a few, far from souring on sweeteners, are expanding their job-quest programs.

Virginia raised its spending on economic-incentive deals 56% last year, while making budget reductions elsewhere. The administration of Republican Gov. Robert McDonnell says job creation is the best way to raise tax revenue and pay for services. The state's unemployment rate has been declining and was 6.3% in March.

And Wyoming has adopted legislation permitting the state next year to buy as much as $600 million, up from $100 million, of industrial-development bonds, which are securities that local governments issue to help businesses borrow for capital projects.

The sponsor of the bill, State Sen. Marty Martin, says he was responding to situations where businesses wanted to do projects in Wyoming but had trouble getting loans. "The large banks, they are just not putting out money to work with businesses," says Mr. Martin, a Democrat.

The legislation, however, requires that bond purchases be approved by the state treasurer, and that official opposes the new policy. "I take the position that if a bank will not loan money to a business, in very rare circumstances should the state of Wyoming do that," says Treasurer Joseph Meyer, a Republican.

He has a dim view, in general, of giving businesses incentives to come in. "They take our money, stay for a couple of years, and then move to another state," Mr. Meyer says.

In New York, another state facing tight finances, new governor Andrew Cuomo complained in his budget message that economic-development spending had soared, while not doing enough to create jobs. Such spending totaled about $1.55 billion in the fiscal year ended in March, more than triple the level a decade earlier, a time during which the number of manufacturing jobs in the state declined by more than a third, according to the budget briefing. Mr. Cuomo, a Democrat, called for changes including better oversight of the deals.

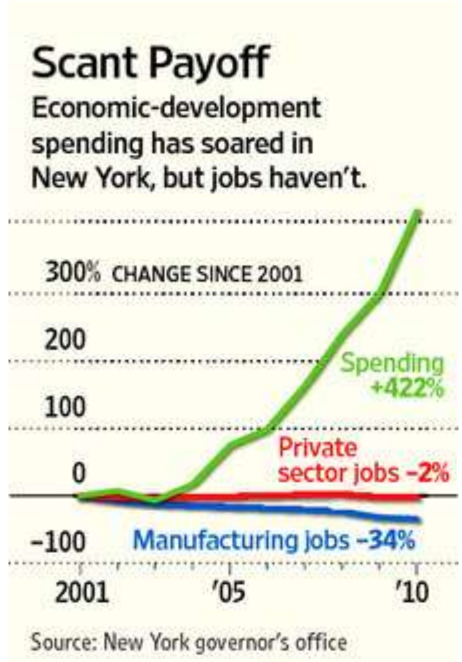
In some cases, public officials have grabbed ownership stakes in companies that lagged in producing jobs.

Alabama's public-employee pension system lent more than $550 million in 2007 and last year to finance construction of a rail-car plant, part of a strategy by the fund to spur development in the state and generate tax revenue.

But the recession curbed demand for rail cars, and by last summer the plant was idle, says the pension director, David Bronner.

Fearing it would lose its investment, the pension system took ownership of the mile-long plant and is trying to lease it to others. The plant's original owner, National Industries Inc. of Hamilton, Ontario, declined to comment.

Massachusetts revoked tax breaks or other economic-development perks for 74 companies in 2010 for failing to create the promised jobs. That compares with 18 such revocations in 2007, before the financial crisis hit.



Most companies that fall short argue, "Gee, the economy is so bad, did you really expect me to add jobs in this economy?" says Gregory Bialecki, the state's secretary of housing and economic development.

In the past, Massachusetts might have considered whether a company made a good-faith effort, he says, but "the economy has changed things. It's much clearer now; if you don't create the jobs, we expect our money back."

Getting it can be difficult. Massachusetts officials believe they may be legally able to salvage only about $3 million of $21 million in grants given four years ago to Evergreen Solar Inc. The company was supposed to create 350 jobs at a plant near Boston and maintain them for eight years, but it is now closing the plant after just three years.

"Changes in the competitive environment caught everyone off guard" after subsidized Chinese production forced down prices, says a company spokesman, Michael McCarthy. He says Evergreen is cooperating with officials to determine how much it must repay but believes it fulfilled most of the agreement because at its peak the plant employed around 800.

Massachusetts legislators now are considering a bill that would stiffen development contracts. One provision would require companies that don't meet commitments within two years to pay back the value of the tax break.

Officials in Henry County, Va., regret they didn't strike a tougher deal with American of Martinsville, a maker of sofas and recliners.

The business got a $280,000 state grant in 2009 for an expansion of its local plant, which was supposed to include retaining 121 jobs and adding 94 more within three years. The firm would be considered in default if it filed for bankruptcy during that time or didn't create 75% of the jobs.

The jobs came; by April 2010, the facility had 200 employees. But they didn't stay. That month, the plant abruptly closed.

Trying to protect its investment, Henry County put liens on the sofas and loungers still on the premises, but the furniture maker filed for bankruptcy reorganization in June. The court ruled the county an unsecured creditor and it never was repaid, says county administrator Benny Summerlin. "Now we're stuck,"" he says. Unemployment in Martinsville was 17.8% as of February.

The furniture company is owned by a private-equity firm, Hancock Park Associates. It declined to comment.

Going after companies that built a plant but then saw the economy turn against them can fray a state's welcome mat. Mr. Fairchild of YUSA, the auto-parts company Ohio is dunning for part of a past grant, says, "Frankly, you wonder whether . . . they are trying to chase industry clean out of here, and beat us with a stick until we finally say, 'The heck with you.'"

Asked about that, Ohio's job-creation director, Mr. Kvamme, says the state "will continue to be pro-business [but] when companies receive tax dollars with the promise that they will create jobs, we must hold them accountable for the sake of our tax-paying businesses and citizens."

He adds that the state is simply upholding to the same standards as others in the business world: "What does their bank say if they don't make a payment? What does their mortgage company say?"

OP-ED: Corporate Welfare or Competition? It's All Part of a Big Equation

Connecticut News Junkie, by Heath W. Fahle | Sep 27, 2013 11:12am

The State of Connecticut will provide $31 million in state funds to Bass Pro Shops to construct a new retail store in Bridgeport. The move is being called "economic development" but most recognize it by its real name: corporate welfare. Gov. Dan Malloy often notes that in a perfect world, such assistance to businesses would be unnecessary but since other states do it, the State is forced to compete.

Gov. Dan Malloy often notes that in a perfect world, such assistance to businesses would be unnecessary but since other states do it, the state is forced to compete.

One can't help but wonder why the Governor's spirit of competition doesn't extend to other issues. For example, policymakers in North Carolina decided this year that the state's tax code posed a significant disincentive to business growth in the Tar Heel State, pointing to a state business tax climate ranked 44th in the nation last year.

Lawmakers passed a sweeping overhaul of the tax code, reducing personal income tax rates, business tax rates, eliminating the estate tax, and other measures. The Tax Foundation estimated that with the changes, North Carolina's business tax climate would rank 17th in the nation. Connecticut's business tax climate was ranked 40th in the same study.

But the Governor is right that other states are competing and it isn't just for jobs. In August, the Tax Foundation highlighted the migration of personal income among states between 2000 and 2010. The data indicates that $4.5 billion in personal income left Connecticut during that time period.

According to a new web tool, *How Money Walks*, it is apparent that Connecticut's loss was mostly Florida's gain, with $4.83 billion moving south between 1992-2010. The tool also offers an interesting look at county-level data. Among several interesting points, it shows that nearly $1 billion moved from Fairfield County to just three counties in Florida: Palm Beach, Lee, and Collier counties.

Strikingly, half the counties in Connecticut actually grew during that time (Litchfield, Middlesex, Tolland, and Windham), speaking to the magnitude of the migration from Fairfield, New Haven, and Hartford counties.

As if that weren't enough, there is also a new web tool to show how much income and wealth can be gained or lost by moving to a new state. WhyNotMove.org uses marital status, birthdate, current annual earnings, retirement and other savings, and other data to estimate the discretionary income gain or loss associated moving to another state (and holding other factors equal).

For example, a married 40-year-old couple making Connecticut's median household income of $70,000 (Connecticut's median household income according to the Census Bureau), would save $1,282 per year by earning it in Florida rather than Connecticut. However, the household remains better off in Connecticut than in New York or Massachusetts. A move to the Empire State would cost $645 in discretionary income while a switch to the Bay State would cost $388.

The tool also offers the ability to calculate based on property and other taxes if you enter information about your home value, monthly mortgage payment, and years left on your mortgage.

Though imperfect tools in many ways (they are estimates that require several big assumptions), these resources highlight the competition for people and jobs between the states. Subsidies for Bass Pro Shops or other employers represent a strategy for competing, but compared to the larger changes pursued in other states, Connecticut needs to do more to keep up.

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From Wikipedia, the free encyclopedia

Subsidy

A **subsidy** is a form of financial or in kind support extended to an economic sector (or institution, business, or individual) generally with the aim of promoting beneficial economic and social outcomes.[1] Although commonly extended from Government, the term subsidy can relate to any type of support - for example from NGOs or implicit subsidies. Subsidies have a long track record and today come in various forms including: direct (cash grants, interest-free loans), indirect (tax breaks, insurance, low-interest loans, depreciation write-offs, rent rebates).[2] Furthermore, they can be broad or narrow, legal or illegal, ethical or unethical. …

Subsidies can be hugely damaging or beneficial because they create distortions. They are designed to overcome deficiencies in themarket, support disadvantaged parts of society, and positively distort activities such as pushes towards renewable energy, recyclingand agricultural set-asides. Simply put they represent an attempt by Governments to control the behaviour of individuals, businesses and larger groups by offering or exacting economic benefits/taxes. Other benefits may spin off, primarily as subsidies may act as a form of protectionism or trade barrier to foreign imports thus protecting domestic goods and services.

Externality

In economics, an externality is a cost or benefit which affects a party who did not choose to incur that cost or benefit.[1]

For example, manufacturing activities which cause air pollution impose health and clean-up costs on the whole society, while the neighbors of an individual who chooses to fire-proof his home may benefit from a reduced risk of a fire spreading to their own houses. If external costs exist, such as pollution, the producer may choose to produce more of the product than would be produced if he were required to pay all associated environmental costs. If there are external benefits, such as in public safety, less of the good may be produced than would be the case if the producer were to receive payment for the external benefits to others. For the purposes of these statements, overall cost and benefit to society is defined as the sum of the imputed monetary value of benefits and costs to all parties involved.[2][3] Thus, it is said that, for goods with externalities, unregulated market prices do not reflect the full social costs or benefit of the transaction.

Winner's curse

The winner's curse is a phenomenon that may occur in common value auctions with incomplete information. In short, the winner's curse says that in such an auction, the winner will tend to overpay. The winner may overpay or be "cursed" in one of two ways: 1) the winning bid exceeds the value of the auctioned asset such that the winner is worse off in absolute terms; or 2) the value of the asset is less than the bidder anticipated, so the bidder may still have a net gain but will be worse off than anticipated.[1] However, an actual overpayment will generally occur only if the winner fails to account for the winner's curse when bidding (an outcome that, according to the revenue equivalence theorem, need never occur).

Definition of 'Zero-Sum Game from Investopedia, www.investopedia.com

A situation in which one participant's gains result only from another participant's equivalent losses. The net change in total wealth among participants is zero; the wealth is just shifted from one to another.

Prisoner's Dilemma Farlex Financial Dictionary, http://financial-dictionary.thefreedictionary.com

A classic problem in game theory. In the problem, two suspects are arrested and questioned separately by police. If one accuses the other while the other remains silent, the accuser will go free and the silent party will go to jail for 10 years. If each accuses the other, both go to prison for five years. If both remain silent, they only go to jail for one year. According to the dilemma, the rational response for each of the prisoners is to accuse the other (maximizing the possibility each will go free), even though this produces an irrational result (that both go to jail for five years).

The prisoner's dilemma is used to explain a variety of economic and political phenomena when all parties involved are self-interested, rational and have imperfect information. For example, two companies may compete for a promising employee. They offer increasingly attractive salaries. If one company gives up, the other company will take the employee. So both quite rationally increase the offers. This however could produce the irrational result that a new employee is paid too highly. The prisoner's dilemma seeks to explain why rational actions sometimes lead to irrational conclusions.