Give Me a Home Where the Subsidies Roam

By Tim Rowland

I don't know if it made the crawl on CNBC, but Tiger Aircraft declared for bankruptcy earlier this year.

You know Tiger, don't you? It built an aircraft assembly plant in that hotbed of aviation, Martinsburg, W.Va., lured there by a mountain of incentives handed out by everyone from a U.S. senator to local officials. Projected to manufacture 70 light planes a year, Tiger built just over 50 in five years before barrel-rolling into oblivion and leaving $115,000 in unpaid taxes.

Incidentally, right next door to Tiger is the plant for another aviation startup — this one, a corporate jet company. Think it might follow the same flight path?

There's a lesson here: A business that needs government help to be viable is probably not a viable business. State-sponsored corporate failure isn't a pretty sight.

Fortunately (I guess), a lot of government economic development folks pony up the dough to better bets than start-up aircraft firms. Alabama paid $168,000 per job in 1993 to attract Mercedes. In 2004, Dell was handed $242 million in incentives to build in North Carolina. Kia got $248 million out of Georgia last year for an assembly plant. At the same time, four southern states were dangling hundreds of millions of dollars under the hood ornament of Toyota.

Now I know what you're thinking: such economic development "investments" may not be a bad thing. If you're a decaying upstate New York town with a lot of infrastructure and a little industry, you'll be happy to offer some inducements in order to get some Fortune 500 firm to put all that water and sewer and roadway to good use. Or you may be willing to offer a big employer a sweetheart deal up-front in full knowledge that the firm's future taxes and other payments will cover the cost over time. There's even a 2004 paper by MIT's Michael Greenstone and California, Berkeley's Enrico Moretti that empirically finds that, to borrow from its subtitle, "winning a 'million dollar plant' [does] increase welfare."

And yet, I can't help feeling a little sick about all the wheeling-and-dealing of state and local economic development offices. Besides, it's hard to believe all those politicians are thinking about long-term community welfare, and not about getting their grinning lemons on the front page of the newspaper under a headline trumpeting the creation of new jobs.

Firms are in business to make money, and one of the classic costs of doing business is (or used to be, anyway) buying ground and building a plant.

Jay Cooke's Northern Pacific got some sweet land deals, it's true. But how ticked would he be if he'd known that by holding out for a century, the government would have paid for the track as well? Andrew Carnegie made a fortune without having to locate his steel mills in a stinkin' enterprise zone. Fact is, he built his plants where it made sense — on a river for power, and near accessible sources of ore and fuel.

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Those economics still apply today. Toyota turned down better offers to build its Tundra plant in Texas because — get this — Texans buy a lot of pickups. Who knew? So Toyota bit the bullet, even if it meant settling for a measly $133 million in incentives. Fact is, if Toyota felt Texas was the best place for maximizing profit, it probably would have located there even if all Texas offered up in thanks was a fruit basket.

Markets are markets. What firms want to know is what are their costs of doing business and whether those costs will change (read: whether politicians will hold them up) in the future. So perhaps instead of all sorts of incentives, states might try doing something totally nuts — like lower their business-tax rates, and then stick with them. That would treat all businesses equally, from the tech startup to an automotive behemoth.

But I know, I know: Greenstone and Moretti. Inducements may be optimal. So OK, how about this:

I need to build me a new retirement home, and I'm looking for a good location. I have five or six sites in mind that are all about the same. So how about if I go with the state that offers me the best deal? Naturally, I want to get the land for free. Plus, free sewer and water hook-ups and a good, low mortgage rate — say 3 percent. And oh yes, if you don't mind, defer my property tax for the first decade or so.

I promise you, having me in your town will give the local welfare a real shot in the arm. R

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