

Guest commentary: Subsidies are here to stay; the charge is to use them wisely

By Gina Downs Naples

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Because of Jackson Lab's interest in locating to Collier County, many citizens were alarmed to discover that tax dollars subsidize business.

Subsidies are common and some would say essential tools for stimulating the economy. They come in many forms. One popular form is tax increment financing (TIF), which diverts a portion of tax dollars from one project to subsidize another project. Another is the creation of enterprise zones where companies located within a designated geographic area of the zone are entitled to multiple tax breaks. Property tax abatements, sales tax rebates, infrastructure improvements, reimbursements for worker training costs, low-cost capital financing and direct cash grants are each additional forms of subsidies.

Subsidies are nothing new. As far back as 1791, New Jersey was granting tax exemptions to a private business owned by none other than future president James Madison.

Most people are aware of agriculture subsidies, which date back to 1862. Cato Institute reported in 2009 that total subsidies for farm support were "between \$15 billion and \$35 billion annually." According to Business Week, "about 61 percent of the aid went to 10 percent of recipients." All developed countries use subsidies and price support programs to protect their agricultural industry.

The most highly subsidized industry in the world continues to be the oil industry, with the U.S. kicking in about \$39 billion a year, according to the 2007 Koplow report to the Organization for Economic Cooperation and Development. The International Energy Agency puts the 2007 worldwide subsidy figure at \$310 billion.

Keep in mind that there has never been a subsidy-free energy source developed whether that be oil, gas, coal, hydro, nuclear, wind or solar.

One of the most heavily subsidized U.S. businesses continues to be Wal-Mart. In Arcadia, a Wal-Mart distribution center received \$23.8 million in subsidies. The total Wal-Mart take in the Sunshine State alone is more than \$59 million. A 2004 study, Shopping for Subsidies, documents more than \$1.2 billion in state and local subsidies to Wal-Mart. Profits in 2010 for the world's largest retailer were \$14 billion.

In 2005, North Carolina enticed Dell computer with \$267 million in state subsidies for a

promised 1,500 jobs. The county share was \$37 million. Dell closed its Winston-Salem location in January 2010, laying off 900 and transferring the work to Asia and Mexico. Dell reported a 2010 profit of \$10.1 billion.

The granddaddy of recent state subsidies may be the Kia car plant in West Point, Ga. The state offered Kia a \$420 million incentive package. About 2,500 jobs were promised at an average subsidy of \$168,000 per job. As of late September 2010, about 1,900 were employed at the 2.2 million-square-foot factory. Kia recently rolled out their 100,000th vehicle. The manufacturer plans to hire an additional 1,000 workers by the end of 2011. Kia's 2010 profit was \$2.02 billion.

U.S. Chamber of Commerce President Edwin Neilan coined the phrase "seduction by subsidy." Neilan railed at a National Press Club meeting that subsidies are turning politicians into "bagmen" who trade subsidies for votes. He was concerned that undue influence with this kind of funding would result in poor public policy.

Neilan was president of the Chamber 48 years ago, in 1963.

Does subsidizing activity in the private sector necessarily equate to poor public policy? The obvious answer is ... it depends. Subsidy profiles over many years reveal subsidy deals that are reasonably successful, but also disclose projects that have been abject failures.

The decision matrix for government must include determining the best use of subsidies to reach an economic-development/growth-management goal. Following a best-practices framework, subsidy agreements should include but not be limited to:

1. Full disclosure of all costs and projected benefits. Public hearings must be held at numerous locations and at various times to allow citizen input before decisions are reached.
2. Compliance measures. Publicized benchmarks must be met within a reasonably flexible time frame. Easily accessible online recipient reporting must provide complete, accurate and timely information in order to monitor compliance.
3. Recapture provisions so that payback is required by law if the company does not meet its agreed-upon obligations. Clearly defined breach of contract conditions must accompany recapture provisions.
4. Employment standards. An established number of full-time positions with full benefits packages for local employees. A base wage-rate scale must be included.

By using all these tools and by carefully selecting the most effective investment opportunities, fiscally sound economic growth that simultaneously safeguards public funding is achievable.

Downs, who ran for District 2 Collier County Commission last year, is a member of the Collier County Productivity Committee, Environmental Advisory Committee, Affordable Housing Advisory Committee, Community Traffic Safety Team and Economic



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