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The Wemstroms: Cooperation, not competition, key to economic growth

By Chuck and Pat Wemstrom

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Indiana and Illinois are at war. Indiana began it with “Illinoyed by Higher Taxes?” signs. And Illinois Gov. Bruce Rauner has continued it with his assertion that he will “rip the economic guts out of Indiana.”

Chicago-based Edsal Manufacturing announced plans to expand in Gary, creating about 100 minimum-wage jobs. Officials plan to offer tax breaks to the firm, and the mayor of Gary claims companies like to take advantage of Indiana’s lower corporate taxes.

Money grants, tax breaks, regulatory protections and other government subsidies to companies are often called “corporate welfare” or “crony capitalism.” Governments spend approximately $59 billion a year on traditional social welfare programs but $92 billion on corporate subsidies. The Cato Institute estimates that $100 billion was spent in 2012.

Scott Reeder recently wrote a surprising column called “Sucking in the corporate subsidies is wrong,” complaining that Illinois has paid businesses to move here and/or paid them to stay. “We pay higher taxes so some big business can pay less.”

We say “surprising” because in the past Reeder has praised Indiana for their low corporate taxes. Perhaps 1. He thinks corporate welfare is OK for Indiana to engage in, but not Illinois, or 2. He’s upset because former Gov. Pat Quinn, a Democrat, had promised $100 million to companies (even though Rauner is honoring that pledge), or 3. He considers low corporate taxes OK, but not financial subsidies.

Actually, it’s all costing taxpayers. If Indiana offers tax breaks to companies, “ordinary taxpayers” must make up the shortfall. If Illinois attracts a company by offering low corporate tax rates, it’s really gaining nothing.

An article in the Chicago Tribune (April 15) by Sam M. Cordes and Richard C. Longworth suggests that the competition between Illinois and Indiana is self-defeating. “These states don’t really compete with each other, and neither will thrive until they start acting like the neighbors they are. . . . The real competition is China and Mexico, and it’s winning.”

Cordes and Longworth talk about the Midwest as a region unto itself, separated by meaningless state lines (Longworth makes a similar point in his excellent book, "Caught in the Middle"). People cross these lines in both directions. They suggest that the governors of Illinois, Indiana, Wisconsin and even Michigan combine efforts to promote growth in what they call the “blue economy,” near the freshwater source of Lake Michigan.

The article points out that states need workforces, infrastructure, public services, excellent quality of life and education systems. States should promote the great universities in Bloomington, Champaign and Madison. The real rewards in the global economy seldom “go to the place with the lowest taxes, except for the bottom-feeders who can always find a cheaper place (think Mississippi as the first stop before they move to Mexico or China) with marginalized workers who will accept any wage.”

A New York Times article (2012) says corporations play on fears they will leave. “States compete with other states, cities compete with surrounding suburbs, and even small towns have entered the race with the goal of defeating their neighbors.”

Cordes and Longworth praise the Alliance for Regional Development, an organization working to unite the Milwaukee-Chicago-Northwest Indiana region. It’s been endorsed by former Gov. Mitch Daniels of Indiana, Quinn and Gov. Scott Walker of Wisconsin.

While Midwestern states compete with each other with subsidies and low tax rates, the taxpayers lose out. So do workers, who receive low pay and eventually are laid off as the companies move out of the country. Instead of the cutthroat competition and attempts to “rip out economic guts,” maybe we should try cooperation.