

BOONDOGGLE

HOW CAN WE MOVE OREGON'S JOBS STRATEGY BEYOND CORPORATE WELFARE? by Alan Pittman



DETAIL OF A MURAL BY CARL MORRIS. MORRIS PAINTED THESE MURALS IN 1943 IN THE EUGENE POST OFFICE ON WILLAMETTE STREET AS PART OF A DEPRESSION-ERA PROJECT TO EMPLOY ARTISTS TO ADORN NEW BUILDINGS BUILT BY THE NEW DEAL JOBS PROGRAM.

When Sony came to Springfield in 1994, state and local governments lavished more than \$12 million of tax breaks and subsidies on the corporation.

"Oregon couldn't be more proud or be more excited than to welcome Sony," then Gov. Barbara Roberts gushed.

But nine years later, Oregon isn't so proud. The high tech industry the state paid untold hundreds of millions of dollars to recruit is in the dumps. Sony and many other companies have shut down, scaled back or moved away for cheaper labor. With thousands of high tech jobs lost, Oregon now leads the nation in unemployment and government red ink.

"We became the cartoon poster child for a failed state," Tim Nesbitt, director of the Oregon AFL-CIO, told the Portland City Club last month.

Besides Sony, the local economic development landscape is littered with failures:

- Hynix received more than \$60 million in subsidies and tax breaks but recently laid off its chip plant workers for six months and continues to teeter on bankruptcy.

- HMT laid off 400 workers at its Eugene hard drive plant after receiving \$2 million in tax breaks.

- Eugene lured Symantec downtown with \$1 million in subsidies and built the corporation a \$13 million parking garage. But Symantec left Eugene for more tax breaks in Springfield.

- Local officials launched the Riverfront Research Park in 1994 with promises of 3,000 high paying jobs. But today, taxpayers have few if any jobs to show for at least \$13 million in subsidies.

- Over the past three decades, Eugene has spent tens of millions of dollars on subsidized parking garages and infrastructure for downtown businesses in failed efforts to revitalize the city core.

Calls for jobs, jobs, jobs have intensified with the current economic slump. Given past failures, what should state and local government do? New Gov. Ted Kulongoski and industry and business recruiters have called for even more of the same old tax break and deregulation strategies. But there's a growing chorus of critics that say we should learn from our past mistakes and employ a new economic development strategy focused more on the public good than corporate profits.

BROKEN RECORD

Kulongoski has declared aggressively recruiting new industry with tax breaks is his "highest priority." Even before he took office, he left for Silicon Valley to schmooze corporate CEOs. Last month the governor was at Intel wearing a clean room "bunny suit."

Kulongoski's newly appointed point man on economic development, Marty Brantley, says the state hasn't given away money fast enough to lure corporations. "Part of the reason our unemployment rate is so high is we have not had the tools," says the director of the Oregon Economic and Community Development Department. "We are in a very competitive environment and without some of these incentives for people to come, they won't come."

Brantley's agency is backing legislation to expand the state's strategic investment and enterprise zone programs to give more property tax breaks to corporations. The two programs have already cost state and local government hundreds of millions of dollars over the past decade in forgone taxes with the tab increasing by about \$80 million a year.

Kulongoski has signed an executive order to create an "Office of Regulatory Streamlining" to cut state regulations that stand in the way of business. Another executive order aims to expand city urban growth boundaries (UGBs) to create more "shovel ready" industrial sites.

The sprawl prospect has local land speculators drooling and strong backing from Jack Roberts, the new head of business recruiting for the Eugene/Springfield Metropolitan Partnership.

"The biggest problem we have right now is a shortage of good industrial lands," says Roberts. "We have to talk about expanding the urban growth boundary."

Roberts also sees no mistakes in past giveaways to Sony, Hynix and others and wants to continue the hand-outs to corporations. The incentives to lure the companies were "worthwhile," he says. "We need to get in the game."

The Eugene City Council recently voted to give Hynix \$2 million more in tax breaks, even though the corporation was cutting and not adding jobs. The council also has moved to triple the size of the city's urban renewal district downtown and keep the Riverfront Research Park district going another 20 years. Several councilors recently used an unscientific survey of some local businesses' anti-government attitudes to call for more deregulation and subsidies.

BROKEN BREAKS

"Jack Roberts doesn't have a clue," says Ed Whitelaw, a UO professor and one of the Northwest's leading economists. Study after study has shown that corporate incentives do little to improve local economies, he says. "I can give you chapter and verse."

Sony was a "classic mistake," Whitelaw says. "We've know [that incentives don't work] for decades, yet people keep getting suckered into it," he says. "It's a chronic persistent disease that we've contracted here. It's just mindless."

A long list of studies has shown corporate incentives don't create jobs, but rather pay companies for decisions they would have made anyway. Here's a sampling:

- In 1998, two-time Pulitzer-Prize winning reporters Donald Barlett and James Steele reported on tax incentive "corporate welfare" in a four-part *Time* magazine series. "It has turned politicians into bribery specialists, and smart business people into con artists. And most surprisingly of all, it has rarely created any new jobs."

- A 2000 study commissioned by Oregon's largest business lobby, Associated Oregon Industries, shows tax breaks don't work. Tax breaks aren't a big factor in location decisions by corporate headquarters, the study found. The corporations tend to choose states with large populations and big economies. California and New York have high taxes but do the best at luring corporate headquarters.

- Each new job recruited to the state adds to the population by about 2.3 people and is therefore unlikely to result in reduced unemployment, according to studies by Oregon Employment Department economist Art Ayre.

- The Oregon economic development department itself conducted a study in 1993 that concluded "analysis of tax incentive programs finds little evidence that they are effective in promoting economic development." The research indicated that labor costs, transportation, materials, quality of city services and other considerations outweigh tax incentives in deciding where a corporation locates.

With so many studies questioning tax breaks, Eugene City Councilor Bonny Bettman says any new breaks should closely weigh costs