★ Chapter Three ★

Fantus and the Rise of the Economic War Among the States

We're familiar with the needs of industry. We have a wealth of information on what particular industries want. We know the real reasons they move, not the phony baloney reasons they sometimes give out.

—Maurice Fulton, manager, Fantus Company, Chicago (the long-dominant site location consulting firm)[1]

Site consultants think about states the way 17-year-old boys think about 17-year-old girls.

—Jay Hancock, Baltimore Sun[2]

In the depths of the Great Depression, a young Chicago industrial real estate salesman named Leonard Yaseen grew impatient with his father-in-law and boss, Felix Fantus. The old man was doing a lot more for his corporate clients than helping them buy and sell real estate. He was giving companies that sought to relocate their factories information not just about land and buildings, but also about transportation and utilities, local wages and taxes. He had been doing this since 1919, when he performed his own site location search to move his chair-manufacturing plant from Chicago to Indiana. Fantus was giving all this valuable information away for free, and Yaseen thought they should be charging for it.

Unable to convince Fantus that his insights could be commodified into a business, in 1934 Yaseen left Chicago for New York, with his father-in-law's blessing. For a year and a half, he immersed himself in data about rail service, labor skills and wages, utilities, raw materials, and taxes. Then he sent a pitch letter to lots of Manhattan-based manufacturing companies, and one hired him.[3]

Thus was born the Fantus Factory Locating Service, one of the most powerful yet obscure consulting firms in U.S. history. Yaseen's fledgling business slowly took root through the rest of the Depression and World War II, and then boomed after the war. It prospered so much, he was able to buy a major stake in the Fantus real estate company in Chicago and immediately converted it to site location consulting as well. Another son-in-law of Felix Fantus, Maurice Fulton, would come to head that office.

For the next four decades, Fantus dominated the site location consulting industry, playing a central role in the relocation of thousands of workplaces, most of them factories moving out of the Northeast and Midwest to the South. By its own count, Fantus had helped engineer more than 4,000 relocations by the time Yaseen retired in 1977, and it shepherded 2,000 more in the next decade.[4] Fantus also did extensive work overseas as early as the 1950s, working for U.S. companies seeking sites in at least a dozen other countries.

Fantus survives today as a Chicago-based consulting affiliate of the Big Four accounting firm Deloitte & Touche. Although the industry is now more fragmented and its work more computerized, site locators still use the basic system Fantus created. The identity of corporate clients is still held confidential until late in the process. The real reasons a company chooses a place are not revealed. Cities and states are still "whipsawed" against each other to maximize subsidies, and when that happens, cities and states are often not told the places they are competing against, so there is no way for City A to know that what the consultant says Cities B and C are offering is true. Many of the consultants work for both private and public-sector clients, claiming no conflict of interest. Many of the profession's most influential players—including Robert Ady, Gene DePrez, and Dennis Donovan—are Fantus alumni.

It's not just the Fantus process that lives on, but also its philosophy that influenced the shape of the nation's economic geography and our belief system about what constitutes a good "business climate." Although obviously Fantus did not tell its clients what to do, the net result of the relocations it aided was anti–Rust Belt, anti-city, anti–corporate tax share, and anti-union. And although Fantus discontinued rating states on their "business climates" after issuing one study, succeeding studies by another firm played a major role in accelerating the state-versus-state subsidy wars and reducing corporate taxes in the name of jobs.[5]

Site location consultants are among the most powerful yet least regulated consulting industries in America. Most avoid publicity like the plague, yet they are in the middle of the majority of high-profile deals. Their methods have raised serious questions about conflict of interest, because many work for both sides of the street: for companies looking for places and for places looking for companies. This dual role gives them inordinate power, and they are central figures in the creation and escalation of the subsidy-bidding wars for jobs. They have a monetary self-interest in this escalation, because it makes their work more valuable and because they sometimes work on commission, taking a cut of the subsidies they help companies negotiate. They are the rock stars in expensive suits at economic development conferences, before whom public officials line up to give their cards. They are the shock troops of the corporate-orchestrated "economic war among the states" that is slashing corporate tax rates and manipulating state and local governments everywhere.

Fantus and the Birth of State-Sponsored Subsidies[6]

Fantus and Yaseen were pioneers in the science of business relocation, and one of their clients helped create the first state-sponsored economic development subsidy to benefit individual companies. Before Yaseen went to New York, Fantus had developed relationships with public officials in the South during the years he gave away free advice. One of them was Hugh Lawson White, the ambitious mayor of Columbia, Mississippi. In 1929, Fantus helped White land the Reliance Manufacturing Company, which made shirts and pajamas. Reliance agreed to move to Marion County if $85,000 could be raised to pay for the plant. Mayor White called a public meeting at the city's theater, made what must have been an impassioned appeal, and solicited promissory notes that he parlayed into a bank loan to land the deal.[7]

Six years later, White was elected governor of Mississippi, running on the fame he had gained as an aggressive recruiter, and pledging to "Balance Agriculture with Industry," to diversify the state's economy. Although localities in the South then routinely subsidized new plants, White soon proposed a more ambitious plan, a real breakthrough in state-sponsored job subsidies that is now called the Industrial Revenue Bond. IRBs are government-issued, tax-free, low-interest "private activity bonds" that subsidize private companies. They are deemed tax exempt because they serve the public purpose of economic development. Purported to address an "acute economic emergency" and wrapped in a great deal of New Deal–flavored language about the general welfare, the Mississippi Industrial Act enabling IRBs was passed by a special session of the state's legislature in 1936.[8]

The Mississippi Industrial Act set forth a system whereby counties and cities could issue bonds to build factories. Because the bonds were government-sponsored, the interest was exempt from federal income taxes in the same way a school or sewer bond would be, so the interest rates were lower than if the bond were a private issue. Once constructed, a facility would be leased to a company, with the lease covering the bond repayment. Since the facility was publicly owned, it would not owe any property taxes. When the bond was paid off, typically in ten years, the building would be deeded to the company.

Southern states already had cheap labor to offer; now they also had cheap capital. Tennessee and Kentucky soon copied Mississippi's IRB scheme, as did Alabama. They were criticized by governors in both North and South, challenged by the investment banking industry as creeping socialism, blamed by labor leaders for subsidizing anti-union runaway shops, and targeted by proposed federal legislation and by federal banking regulators. In the same years, southern states also began to popularize the use of long-term property tax abatements. Low-margin industries such as textiles and apparel that were already sensitive to labor costs began migrating wholesale; Textron moved 15 plants out of the Northeast between 1954 and 1957. The issue of southern states using subsidies to help lure factories became a heated issue in the 1950s, the subject of a 1952 American Federation of Labor resolution and much agitation among northeastern politicians.

Perhaps the most outspoken early opponent against this southern "raiding" was Massachusetts senator John F. Kennedy. But southern congressional leaders used their seniority—and the chairman of the House Ways and Means Committee, where federal tax legislation originates, was Wilbur Mills of Arkansas, a big IRB-using state. So IRBs survived—even though they had never been explicitly authorized by Congress and no one knew how much revenue the federal government was losing on the tax-free interest, because many, if not most, of the bonds were sold privately. IRBs spread within the South in the 1950s and early 1960s and then mushroomed, growing sixfold in dollar volume between 1965 and 1967. Congress did not regulate them until 1968 and didn't crack down on abuses of them until 1986.[9]

In other words, the financing scheme created by Mississippi governor White to help him lure jobs from the North was basically an unregulated free lunch at the expense of U.S. taxpayers. This problem—one level of government cooking up a gimmick that takes revenue away from another level of government—is a recurring theme in economic development subsidies. Tax increment financing (TIF) in some states is a current example: TIF districts get created by city governments (as allowed by state law), but other bodies of government, such as school districts and counties, lose property tax revenue. Property tax abatements awarded by cities or counties can reduce school district revenue as well (see chapter 5). It's easy to give money away to corporations when it is not your own. And as these spending schemes become more convoluted and confusing, they also become less accountable.

IRBs were more than just a free lunch—they were moneymakers. As historian James C. Cobb explains in his seminal book *The Selling of the South,* companies figured out that IRBs could enable them to actually make a profit on their buildings. Companies would buy their own bonds and receive the tax-free interest. And the lease payments were deductible as business expenses on their federal income taxes. So, for example, on a factory bond of $500,000 a company might pay $32,000 a year for the lease/debt payment. But then it would get back $23,750 in interest income, plus a federal income tax cut of $16,640 by deducting the expense of the lease. That's a net profit of $8,390 a year.[10]

Cobb chronicles the entrepreneurial zeal of many southern leaders as they created and honed various subsidies, but he draws very mixed conclusions about the long-term outcome. Subsidies may have boosted the region's industrial growth (although surveys at the time suggested most companies would have come anyway), but "they also helped to reinforce the region's attraction for competitive, low-wage manufacturers because these were the firms most in need of the extra savings afforded by subsidies or concessions." Such deals left the region "[s]hackled with poorly paying, slowly growing industries," so that "[i]n the long run, subsidies helped to perpetuate the deficiencies that in turn, appeared to justify the continued use of subsidies."[11]

Southern politicians gained political capital by taking credit when companies relocated,[12] but a lot of that really amounted to parade-jumping; that is, they took credit for things that would have happened anyway. The kinds of companies that were most likely to come were wage-sensitive and able to move. The construction of the interstate highway system, air conditioning, and the South's population growth made relocations all the more likely.

It wasn't just that the South originally attracted low-wage companies; public officials there sometimes kept better-paying companies out, to help the companies who got there first keep wages down. In 1978, in a rare disclosure of an aborted deal, it was revealed that Brockway Glass Company of Brockway, Pennsylvania, was blocked from relocating 300 jobs to Roxboro, North Carolina, because the Roxboro city fathers disapproved that the company accepted a union and paid good wages. People in Roxboro were ticked to lose the good jobs, and the county commissioners resigned en masse.[13]

The story prompted Fantus to disclose, approvingly, that there were "literally scores of companies that had been turned away from Southern towns because of their wage rates or their union policies." And as Maurice Fulton, the other son-in-law of Felix Fantus who now chaired the company, pointed out, "After all, if Brockway came in with a union and high wages, who would want to come to Roxboro?" Another unnamed site locator told the *Wall Street Journal* that in Gastonia, North Carolina, "You tell 'em you got a union, and boom—they'll flat run you out of town on the next plane."[14]

Working Both Sides of the Street

Many site location consultants today work both sides of the street: for companies looking for places and places looking for companies. At least a few firms work only one side of the street because they believe that working both sides is a conflict of interest. This is one ethical issue sometimes raised about the profession (along with the issue of commissions, discussed in chapter 2).

When site location consultants represent companies, they may both have a direct financial self-interest in getting the maximum subsidies they can from state and local governments. Then on other occasions, the consultants also work for states, cities, and regions, advising them on how best to attract companies. That advice sometimes includes suggestions for changing or creating subsidies. The consultants would claim this is not a conflict of interest because they do not work for the public and private sector on the same deal. Others would argue that because the consultants go back and forth at will (without waiting periods, such as those imposed upon former public officials before they may lobby), the possibilities for abuse abound.

At the very least, it's an irregular situation that is inconsistent with the way our whole adversarial American system of professional advocacy has evolved. Can you imagine a lawyer who represents cancer victims in a suit against chemical companies also getting a job representing a chemical company against cancer victims? Or a lawyer negotiating for a union one week and for management the next?

The fact that the consultants are allowed to work both sides is also a sad reflection of how disorganized the public sector is, how the corporate divide-and-conquer strategy has left public officials in a weak position. If public officials were more unified, they could command loyalty from consultants, the same way other constituencies do.

As early as 1953, Yaseen realized that the expertise Fantus was developing while working for companies could be parlayed into a new consulting niche: advising cities, states, regional organizations, utility companies, and railroads on how to attract businesses. He formed a wholly owned subsidiary called Fantus Area Research. When asked if this was not a conflict of interest, he defended his impartiality. "We are just making double use of our extensive library and files," he said. Six years after forming this subsidiary, he even claimed that he had never placed a company in a city that had employed Fantus Area Research.[15]

Little is known about this early Fantus work for the public sector (the company has never been the subject of a book or dissertation), but a 1956 account in the *Wall Street Journal* suggests that those who had concerns about the company's power were justified. The *Journal* reported that Fantus's first Area Study client was York, Pennsylvania, "a city that had failed to attract a new plant in 10 years. Within 18 months after the study was completed, York wooed and won five large factories." Did York gain influence with Fantus? Given how secretively the company operated with its corporate clients, there is no way to know. Within two years, Fantus Area Research had jobs with at least four more cities, two states, two railroads, and a 20-county region.[16]

Fantus's prominent role in the migration of hundreds of plants out of the Northeast and Midwest in the 1960s and 1970s drew criticism from some public officials, especially in New York. But eventually, many governments in those regions became Fantus Area Research clients as well. In a 1986 study for the state of Illinois, Fantus made nine subsidy recommendations, including new corporate income tax credits for research and development, job creation, and retooling. It also recommended that Illinois "reduce the proportion of state tax revenues generated by the corporate income tax to a level competitive with contiguous states."[17] In other words, shift the tax burden away from corporations.

When site location consultants work for government, reported prices for a community study range to $100,000 and state studies as much as $400,000.[18] Given the prevailing power dynamics, when a state or city hires a site location consultant for a business climate study, at least part of what's really going on is that the government agency is trying to gain influence with the consultant, hoping to land some of his future clients. Because there will always be future deals, and given how secretively the consultants operate, getting their personal attention matters. Of course, working in mysterious ways is good for business; it means more people have to court you. That's why site location consultants get taken on junkets to events like the Super Bowl, the Kentucky Derby, the Indianapolis 500, and the Masters golf tournament. As one state development director put it in 2001, "Having a good relationship with one site-location consultant is like having a good relationship with 50 or 100 companies."[19]

Leonard Yaseen's War on Urban America —and New York City

Yaseen had another dispute: with urban America. It played out most dramatically in the tortured relationship he had with his adopted work city of New York. Early in his career, he became convinced that manufacturers should get out of cities and move at least to the suburbs, but preferably to rural areas. Similarly, he disliked taxes and wage laws and disagreed with unions. How many of these opinions were originally his own and how many were those of his clients that he embraced is unknowable, but given his power, Yaseen's biases made news and certainly influenced many companies.[20]

During World War II, he noted with approval that the federal government was assisting some companies to get out of cities to make them less vulnerable to air attacks. During the Korean War, he criticized the Truman administration for not pushing contractors to disperse geographically. At the height of the cold war with the Soviet Union, he urged that core industries like steel, aircraft, oil refining, and machine tools be taken out of major population centers and scattered to rural areas so that a nuclear attack could not disable critical sectors. Putting such plants even on the outskirts of a metropolitan area "does nothing to protect our productive capacity," he said. The Soviet Union's "attack will be concentrated on war-making facilities themselves. Under these circumstances, space offers our greatest protection."[21]

In studies and pronouncements in the 1950s and 1960s, Yaseen tracked and boosted the flight of manufacturing jobs from urban areas. "In the next decade, it will be the very rare exception when a manufacturer decides to build a factory in a big city area," he declared in 1962, citing these lures of less-populated areas: lower wages, friendlier governments, cheaper land, and lower taxes.

Whether he saw it coming or not, the job flight from cities that Yaseen had promoted was disastrous for urban communities, particularly in the Northeast and Midwest. Together with other postwar trends that hurt U.S. cities (see chapter 6 on sprawl), the exodus of factory jobs was a major reason for the rising concentration of urban poverty and the racial and social tensions that arose.[22]

No city bore the brunt of Yaseen's bias more than New York, the city where he worked. As early as 1939, Yaseen was quoted in New

York newspapers about the city's loss of factory jobs, and by the mid-1970s, when the city entered its most dire financial crisis, he claimed to have helped more than 300 companies leave the city.[23] The city's loss of factory jobs hurt its tax base and swelled the welfare rolls.

Fantus also gained many clients involving white-collar jobs in New York, including corporate headquarters. In the mid-1960s, when the city was hemorrhaging jobs of every kind, Yaseen once disclosed that a third of his business was companies looking to move white-collar jobs out of New York; at another time he said he was working for 14 New York City companies with a total of 11,500 employees that were considering moving their headquarters out of the city, and he predicted that he might have 40 such jobs in 1967. Saying that headquarters moves often involve "social factors," he blamed "the commutation problem, the rising crime rate, swollen welfare rolls and the subway strike." Another time, he blamed labor-management tension as the biggest problem. "New York is not a happy place," he said, admitting he was considering a move himself.[24]

Finally, in 1969, Yaseen took his own advice and announced that most of the Fantus Company's headquarters operations would move from Manhattan to suburban New Jersey. Exchanging bitter words with city officials and calling the city's costs "exorbitant," Yaseen forecast that by 1980, New York City employers should expect to be providing 18 paid holidays, 32-hour work weeks, pensions pegged to inflation, more vacation days—and sabbaticals. For Yaseen, living in American cities was becoming impossible, between "a hopelessly snarled traffic system" and "fear of physical attack, air pollution and overpowering noise levels, coupled with high living costs and economic anxiety."[25]

In 1974, Yaseen publicly castigated New York City for failing to take "drastic action" to stop the loss of industry (others said Yaseen should just stop helping companies leave). Specifically, he urged that New York adopt a master redevelopment plan that would move all of the quarter-million blue-collar manufacturing jobs still in Manhattan to large industrial parks created in the outer boroughs. These would be more suitable to the large-footprint, single-story layouts that were increasingly required by factories. He recommended a "superagency" with powers like the Port Authority of New York and New Jersey to parcel land, do zoning, and even oversee workforce training.[26]

In 1977, Yaseen capped off his war with New York by obtaining a $280,000 consulting contract with a group of foundations and banks and the Port Authority of New York and New Jersey to identify industries that could be attracted to the city. At the same time, the company said, it was working for six companies that might be leaving New York. City officials denied they were trying to "buy off" Fantus, but Yaseen said that the company agreed "that we wouldn't issue any negative propaganda or negative reports" about New York for the four-month duration of the study.[27] Besides, Yaseen was retiring, going out on top.

Within months of Yaseen's departure, other Fantus executives began saying favorable things about cities and the North. Besides its New York "image and development strategy report," it had worked for Detroit, Cleveland, and New Bedford. "The big cities are beginning to fight back," said one Fantus executive. There are "excellent opportunities" outside the Sun Belt, said another. "We give the facts to counteract problem images," said a third. A few years later, the consultants were even saying there was bargain-priced labor to be had in New York City: immigrants. AFTER HELPING FIRMS GO, FANTUS LURES THEM BACK, read the *Wall Street Journal* headline.[28]

"Business Climatology" and the Second War Among the States

By the time Yaseen retired in 1977, a new term—"business climate"—had started to take root, and Fantus helped define it to serve corporate financial interests. The term was often invoked in ways that reflected rising regional tensions. The Rust Belt was beginning to show its tarnish and the Sun Belt was booming. In the early 1970s, the populations of some states in the South and Southwest grew at six to ten times the rate of those in the Northeast and Midwest.

Business Week declared "The Second War Among the States." "The nation's disparate economic growth is pushing the regions towards a sharp conflict" that "will take the form of a political and economic maneuver," it warned. Major articles also ran in *Fortune* and the *National Journal;* the latter suggested that federal spending was also biased against the Rust Belt. A new Northeast-Midwest Congressional caucus was formed to address regional injustices.[29]

Public officials were looking for explanations about the growth disparities, and Fantus supplied one, shaped to serve corporate lobbyists. In 1975, Fantus authored the first 48-state "business climate" study, commissioned by the Illinois Manufacturers' Association. Copies of the study itself may not survive, but a business publication reproduced the study's key data: Fantus rated Texas #1, followed by Alabama, Virginia, South Dakota, and the Carolinas. Only one northern state, Indiana, made the top 10. New York, Yaseen's nemesis, came in last.[30]

The very term "business climate" is brilliantly vague. Because the needs of different businesses vary so much, one size cannot fit all. And technology changes how work is structured, so the concept is always evolving. But the publicly understood version of "business climate" that was first established by corporate interests was a selective, politicized one. It remains an ambiguous, malleable term readily available for corporate use. Are we talking about the corporate income tax rate here, or is it how "business-friendly" people are, or how loose environmental enforcement is, or how generous the property tax abatements are? Companies and their lobbyists can always decide which part of the "climate" matters most today and whale away on it, insisting that if companies don't get their way, the area has a "bad business climate." Since the real decision-making process remains a black box, public officials have no way to judge such claims.

The Fantus/Illinois Manufacturers' Association study was a highly political document. In both the way it was structured and the way it was reported, it apparently exaggerated the importance of taxes and unions. It actually ranked the states based on three groups of criteria: "population characteristics," with 8 underlying factors; "quality of life," with 10 factors; and "business legislative climate," with 15 factors. However, the business legislative climate rating got the most attention; it included various corporate and personal taxes, per-capita debt, union regulation (whether a state was a "right to work" state or had a state labor relations board) and other factors (not reported). So even though Minnesota came in #1 for quality of life and #5 for population characteristics, it was rated #41 for business climate. And Alabama, ranked #47 on quality of life and #42 on population, was rated #2 for business climate.[31]

Fantus declined to perform the business climate study again after issuing the 1975 report.[32] The Conference of State Manufacturers' Associations (COSMA) hired the Chicago-based accounting firm of Alexander Grant & Company (later named Grant Thornton) to pick up the job. Starting in 1979, Grant Thornton issued the ratings annually. Like the original Fantus study, the Grant Thornton studies generally rated states in the South and the Plains as having the best business climates. Despite profound methodological flaws and political biases, the studies received broad media attention.[33]

Even Fantus became an articulate, though seldom-quoted, critic of the COSMA/Grant Thornton studies. "These surveys do a lot of harm" and are not a good basis for changing public policies, said Fantus vice president Charles Harding. He called them "a Trojan horse for a certain ideological position" because they are based upon business executives' opinions, not economic statistics. "Is there any empirical evidence that a high level of welfare expenditures is inversely proportional to the business climate?" he asked. And a Fantus consulting report to a state referred to "the popular generic study that purports to rank state business climates" and a "poorly conceived generic study."[34]

Grant Thornton's business climate ratings system was finally dissected and demolished in 1986 by a major study authored by the

Corporation for Enterprise Development (CFED), a non-profit think tank, and two other groups. *Taken for Granted: How Grant Thornton's Business Climate Index Leads States Astray* cataloged a series of omissions and biases that made the studies misleading and largely invalid.[35]

For example, the CFED study explained, the index punished states that had good jobs. By giving negative weight to states with the best wages, Grant Thornton was penalizing every state that had lots of highly skilled factory jobs, since those pay well. So even though a state must have had the business basics that attract manufacturers to land a lot of good jobs, in the ratings that was a negative. Two of Grant Thornton's labor cost factors had to do with unions, but neither accounted for higher skills or lower turnover in union shops. A key factor used to measure productivity was botched; it measured capital intensity or low wages instead. The index overweighted energy costs and ignored key issues such as access to capital and quality of life.

The index was also blatantly anti-tax and anti–social safety net. Despite the fact that state and local taxes are a tiny business expense, 5 of the 22 factors Grant Thornton used were tax and budget issues. However, only one of them measured what states did with their revenue and then did so only to give a negative weight to welfare spending. Nothing else that employers and taxpayers get for their money was counted: not the quality of infrastructure, education, training, recreation, public safety, or cultural amenities. Two more factors had to do with workers' compensation and two others concerned unemployment compensation, both among the smallest of business taxes, but are common hot-button issues for manufacturing lobbyists.

Not only did Grant Thornton use poorly chosen and biased data as the foundation of its ratings, CFED found, but it then put the numbers through a weighting process that made the results completely subjective and political. It sent the list of the 22 factors to the state manufacturing associations and allowed them to allocate 100 points among the factors, based on their beliefs about the relative importance of each. The responses were then averaged and weights assigned. So if a state association was in a big fight that year about workers' comp rates, it might assign high weights to those two factors—even though there was no evidence that workers' comp rates were having any effect on jobs.

Basically, CFED concluded, the Grant Thornton index was at best a very crude measure for a tiny share of companies: only manufacturers, and more specifically, only manufacturers in mature industries with low profit margins who are most sensitive to costs such as labor and are looking to site a branch plant. It didn't really apply to the much larger service sector, or to what we today call the New Economy: high technology, life sciences/biotechnology, and other knowledge-intensive industries.

Borrowing Oscar Wilde's witticism about cynics, the CFED study concluded that the "Grant Thornton index knows the price of everything, but the value of nothing. It emphasizes the costs of labor but not its productivity. It calculates the expense of government but not its benefits." In short, the Grant Thornton index that dominated public perceptions of the states' attractiveness to business from the late 1970s to the late 1980s (when it ceased) was anti-tax, anti–public goods, anti–social safety net, and anti-union. In addition to receiving national media coverage each year, the ratings were recycled in lobbyists' testimony, fact sheets, and newsletters. After the CFED study was issued, Grant Thornton revised its methodology, issued a few more reports, then ceased their publication.[36]

Since COSMA/Grant Thornton quit issuing their studies, there has been a flowering of state and metro-area ratings issued by more than a dozen organizations, including some of the site location trade magazines (see following text). Some of these ratings still seem to be grinding political axes for business interests, but others are really trying to measure new indicators, especially those assets key to the New Economy—especially clusters of human capital, or what Richard Florida has dubbed the "creative class"—that are critical to high technology and other New Economy sectors.[37]

But the period in which the COSMA/Grant Thornton studies ruled—from the late 1970s to the late 1980s—shaped the debate on what states should do about jobs, in ways that still haunt us today. Those were the years in which states enacted a raft of new subsidies, chasing the first wave for foreign auto plants, the GM Saturn factory, and other such trophy deals. Consider these trends between 1977 and 1988: from 20 states with Industrial Revenue Bond programs, to 44 such states; from only 7 states allowing cities or counties to make loans for equipment, to 32; from just 23 states allowing property tax abatements, to 35; from only 13 states making loans for equipment, to 37; from just 21 states with corporate income tax exemptions, to 31.[38]

The message from the site consultants and the business climatologists and their Old Economy corporate sponsors, especially to states in the Northeast and Midwest, was clear: competition is never-ending, and we will publicly judge you based upon how much of your tax base you are willing to surrender to corporations, and how much you are willing to help us suppress wages. To compete, you have to become more like the South.

The Site Location Consulting Industry Today: Fragmentation and Niches

Though the structure of the site location consulting industry has changed, the getting of subsidies is still part and parcel of its work. Today, scuttlebutt says that Fantus—now Deloitte & Touche LLP's Fantus Corporate Real Estate Solutions—is a shadow of its former self, though still a big player in a small field of consulting.[39]

The industry has fragmented since the early 1990s; missteps by later owners of Fantus caused defections, and the explosion of data available on the World Wide Web has lowered the barriers to entering the business. Some site location consultants work within market niches defined by industry or corporate function; this reflects the reality that some industries have increasingly specialized needs and that technology is making it easier for companies to pull functions apart and move them around. As well, there is apparently an elite stratum within the profession that works mostly for Fortune 500-sized firms, while others work for second-tier and medium-sized firms.[40]

It's hard to sketch the industry, both because it is fragmented and because firms within it seem to wax and wane. There is no trade association of site locators, nor are they licensed or regulated by the states. Some have alliances with various publications, websites, utility companies, and economic development associations. Besides Fantus, there are many other long-standing firms, such as Wadley-Donovan-Gutshaw Consulting (part of the Wadley-Donovan Group, which also includes Wadley-Donovan GrowthTech); McCallum Sweeney Consulting; Location Consultants International; A.T. Kearney, Inc.; Carter & Burgess; Fluor Global Location Strategies (part of engineering giant Fluor Corporation); and Moran, Stahl & Boyer.[41]

Two of the other Big Four accounting firms besides Deloitte & Touche have site location practices: KPMG Strategic Relocation and Expansion Services and Ernst & Young International Location Advisory Services. IBM purchased PriceWaterhouseCoopers' Plant Location International business in 2002; it is now IBM Business Consulting Services—Plant Location International. The National Association of Manufacturers runs a Site Selection Network that provides member companies free search help. Some industrial real estate firms also have site consulting divisions, such as CB Richard Ellis Corporate Advisory Services and even the Staubach Company (yes, the former Dallas Cowboys quarterback).[42]

The getting of subsidies remains integral to the work of many companies in the field. Along with consulting, some firms feature decision modeling software products such as Dealtek, which advises: "Do: Congratulate the other side upon the conclusion of the negotiations, even if your company got its way. Don't: Don't gloat about your company's results or what the other side's results could have been."[43] Grant Thornton touts its expertise in negotiating for subsidies. On its website, it says, "we were able to negotiate with a city to extend the boundaries of an enterprise zone to include the location of our client. This strategy resulted in approximately $15 million in savings over 20 years."[44] Writing in a site location magazine, a KPMG Strategic Relocation and Expansion Services partner reported that almost two-thirds of executives polled said they missed a fourth or more of their subsidies. She recommended that companies make "incentives and credits a priority within their corporate culture" and "[r]equire business units to seek incentives."[45]

Some law firms specialize in subsidies, such as Stadtmauer Bailkin Biggins, which cautions in a presentation: "Incentives require justification in a political forum. . . . Be ready to defend materiality of incentives at every turn. This is fundamental."[46] Not all of the firms named here do subsidy negotiations; for example, Wadley-Donovan-Gutshaw refers that work out to Stadtmauer Bailkin Biggins.[47] On the other hand, some of the consultants stress their expertise in maximizing subsidies and minimizing taxes; in chapter 2, I cited the example of Location Management Services, with its pitch about not leaving money on the table. Another firm with a zealous subsidy pitch ("Your guarantee of maximum state credits and incentives") is Mintax, which maintains a subsidy database and claims to represent half of the Fortune 1000:[48]

> What some executives fail to understand is that they can go back in time and recapture incentive opportunities from previous facility expansions. Plain and simple, expansion incentives have retroactive applications. Retroactive incentives are exciting. Consider the sheer wonderment of a young child, who upon taking down the Christmas tree, finds another present hidden under the boughs. It's the same with incentives. After all, a lucrative 'refund check' is just as exciting as negotiating a million dollar incentive package for a new business expansion.[49]

And in another advice article, the same Mintax executive suggests:

> Government agencies are more likely to treat you properly when they feel like they are competing for your business and are cognizant that you are flirting with others. . . . Play hard to get, flirt, create a bidding war, and the sky is the limit. With billions of incentive dollars available, and global competition at an all-time high, the future belongs to the corporations that best compete for these monies.[50]

In contrast, a more temperate pitch comes from Moran, Stahl & Boyer:

"What role do incentives play in the location selection process? We advise our clients to first seek locations that fundamentally meet the strategic needs for the company and allow incentives to act as a tie-breaker. In time, the incentive package will run out and if the location does not have the inherently favorable characteristics and the operation is not embraced by the community, the company may not fare very well long term. We strive to build economic relationships between companies and communities that result in a win-win situation for both parties."[51]

Conflict Questions Persist: The Case of Boeing and Washington State

You would think that with more consultants to choose from, it would be easier nowadays to avoid questions of conflict of interest, but somehow they persist. I've already described Boeing's unusually public 2003 auction for its next-generation 7E7 "Dreamliner" project. At least 20 states entered the fray and Washington state eventually "won," after its legislature enacted a special subsidy package worth an estimated $3.2 billion for the company and related businesses over 20 years.[52]

But after Boeing announced its decision, a conservative think tank in Olympia, the Evergreen Freedom Foundation, sued to win the release of records from the state. These revealed that even though Deloitte & Touche had audited Boeing's books for many years, and even though Deloitte Consulting had until recent years done a lot of consulting for Boeing, Washington state just happened to hire Deloitte Consulting—for $715,000—to help it land the 7E7 project.* In a key presentation, Deloitte Consulting had urged Governor Gary Locke to mount "an extraordinary response to provide a competitive environment for the 7E7." The governor had then proposed the $3.2 billion package to the legislature.[53]

Pressed about the issue, Governor Locke's office said development officials cleared the Deloitte Consulting contract with the attorney general's office. The attorney general's office contradicted that claim, saying it had not reviewed the contract, that Deloitte Consulting was added on as a subcontractor.[54]

The "Cash Cow" Game Plan

Occasionally, documents leak out that expose the subsidy-grubbing game plan. In March 2004 the national director of Ernst & Young's Business Incentives Practice led a workshop together with a former Boeing government relations vice president at the annual meeting of the State Government Affairs Council—"the premier national association for multi-state government affairs professionals of over 120 major US corporations, trade associations and service providers." The title of their PowerPoint presentation says it all: "Turning Your State Government Relations Department from a Money Pit into a Cash Cow." The audience reportedly included officials from Wal-Mart, Proctor & Gamble, Bank of America, and Microsoft.[55]

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*According to Deloitte's website: "Deloitte & Touche USA LLP is the U.S. member firm of Deloitte Touche Tohmatsu. In the U.S., services are provided by the subsidiaries of Deloitte & Touche USA LLP (Deloitte & Touche LLP, Deloitte Consulting LLP, Deloitte Tax LLP, and their subsidiaries), and not by Deloitte & Touche USA LLP."

After citing some big deals and cataloging the many kinds of subsidies available, the presentation offered these pointers and cautions, among others:

> Public doesn't like "corporate welfare."
>
> Control publicity.
>
> Make the case for incentives. What are YOU bringing to the party?
>
> Use local subs and vendors whenever possible . . . and brag about it.
>
> Identify milestones and publicize them.
>
> Involve elected officials in press announcements.
>
> Thank everybody a zillion times.
>
> Offer to be a "reference."
>
> Be mindful of the election and legislative cycle.
>
> Identify the REAL incentives. Don't settle for "off the shelf" but . . . Don't be greedy. [ellipses verbatim][56]

The presentation was leaked to the John Locke Foundation, a Libertarian think tank with a long history of activism on subsidies in North Carolina; it broke the story in its *Carolina Journal* online magazine. Said one Tarheel State representative: "Cash Cow? You got that right. They look at [government] as just turning on the spigots . . . They play state legislators like violins. They're treating us like a scam."[57]

Real Life as a Reality Game Show

The power of site location consultants and their subsidy game has become so entrenched that economic development officials can spoof it. The 2004 annual meeting of the International Economic Development Council, the largest professional association of state and local economic development officials, aptly entitled one session with site location consultants: “Negotiations—How to keep a smile on your face and your shirt on your back!” Attendees could “[l]earn some of the signals site selectors give over the course of a negotiation—how should these be interpreted, e.g., how can you ‘read thru the lines’ to see that you are about to be eliminated. Where do you really stand?”[58]

But life imitated art at the IEDC conference, as the consultants got to preside, like Donald Trump, over a “reality-show” plenary session entitled “The Project: Are You Smart Enough to Win?” Three site consultants pretended to be executives of “TechWear,” a high-tech clothing company siting a customer service center. They heard competing pitches from Pittsburgh; Yuma, Arizona; and Genesee County, New York. All three public officials opened with their business basics: workforce, infrastructure, quality of life, and available sites. They closed with a menu of subsidies. The Genesee County presenter really laid it on thick about New York’s “Empire Zones” and estimated they would be worth $20 million over 10 years.

As the “executives” deliberated, Robert Ady himself, the “godfather of site selection,” said he “liked the payback” from the Empire Zones, but wondered if they were being used to obscure problems with the location. In the end, the consultants-cum-executives chose generous Genesee County. The audience, mostly public officials, using handheld polling devices, went for Pittsburgh.[59]

Such antics aside, there is no mistaking who rules at such meetings: the site location consultants. They are the speaker-bait that brings in hundreds of public officials who hang on their every word, seeking to gain some new insight, learn some new website trick, to get the attention of the consultants and their clients. The consultants seldom offer handouts, and if they use a PowerPoint presentation, it is brisk and breezy. At the end of each session, the public officials line up before them to present a business card and offer a few hasty words to tout the little-known advantages of Springfield.

This deferential ritual is a sad reminder of the prevailing ideology that plagues us today, a hangover from the meanest elements of the

Old Economy, echoes of Fantus and Grant Thornton and their politicized studies and pronouncements that shaped our beliefs about jobs and taxes. The lobbying agenda of footloose manufacturers looking for cheap labor in the South before skipping to Mexico or China had no value for the rest of the economy then, and it is antithetical to good jobs in the New Economy today.