

Although some people worry that tax incentives for reduced consumption might throw the economy into recession, it is total spending, not just consumption, that governs output and employment. Phased in gradually, a progressive consumption tax would slowly shift spending from consumption to investment, causing productivity and incomes to rise faster. In addition, during recessions, a temporary cut in consumption taxes would provide a much more powerful stimulus than the traditional temporary cut in income taxes, because a temporary consumption tax cut would be advantageous only if people spent more right away (in contrast, consumers who fear losing their jobs in a recession are often reluctant to spend temporary income tax refunds).

The Bush tax cuts for the nation's wealthiest families threaten American economic prosperity, yet they have done little for their ostensible beneficiaries. Higher spending on larger mansions serves only to raise the bar that defines adequate housing for economic elites. Even in terms of naked self-interest, everyone would have fared much better if the same money had been spent to repair aging bridges and inspect the cargo containers that enter the nation's ports. Realistically, the progressive consumption tax is the only policy that can make this happen. ▀

Smart Development Subsidies

Brad Carson

Each year, cities and states spend \$50 billion—3 percent of their total expenditures—on incentive programs to recruit or retain businesses. Some are theatrical: Amarillo, Texas mailed more than 1,000 companies a check for \$8 million, cashable if the company promised to create 700 jobs in the city. Others are more prosaic, like the routine exemptions from property tax given to even large and profitable companies like Wal-Mart. In almost all cases, these deals are harmful, eroding the tax base, impairing education funding, and fomenting a destructive race to the bottom as states clamor to give more subsidies and tax breaks to companies.

Of course, we can't—and shouldn't—ban economic development subsidies entirely; after all, it is wise public policy to encourage economic activity in

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struggling communities. But taxpayers need to receive more in benefits from incentives than they lose in tax revenue. That's why we need a new approach of "fair exchange" in which economic development subsidies attract businesses to disadvantaged communities, but also ensure that taxpayers aren't left holding the bag when companies don't deliver promised jobs by giving communities an equity stake in the project. This not only would discourage destructive competition among states but also address additional concerns, such as capital shortage, that bedevil poor communities.

As developed by thinkers and activists—most notably by Deborah Groban Olson in a recent article in the *Cornell Journal of Law and Public Policy*—fair exchange is a simple and appealing idea: Local governments should be treated just like any other investor. If a community wants to cut property

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taxes to recruit (or retain) a company, the company must grant the community an equity stake commensurate with the subsidy. In all cases, local governments would receive equity or warrants in return for any grants, subsidies, or abatements. This equity could be placed in a non-governmental

community trust, which could re-invest in the local town or even give payout to citizens.

The federal government has often followed this approach in its own, admittedly rare, forays into business. In 1979, it bailed out Chrysler with \$1.5 billion in loan guarantees. As part of this deal, Chrysler also gave the federal government warrants to purchase 14.4 million shares in stock; the government sold them in 1983 for a profit of \$311 million. More recently, Congress stabilized the airline industry after September 11 with nearly \$2 billion in loan guarantees, in exchange for which the federal government received warrants for equity in six airlines. These warrants represent between 10 percent and 33 percent of each company's equity, and are now worth millions of dollars.

In the cases of Chrysler and the airlines, the warrants were given to the United States Treasury Department. For states and local governments, a community trust could hold the equity. There is ample precedent for this approach, too. Alberta has established a community trust to manage a portion of the Canadian province's hydrocarbon revenues. The Alberta Heritage Savings Trust Fund uses its assets to fund government services and to invest in economic development projects. Drawing on the Alberta example, Alaska created its Permanent Fund in 1978 to receive the state's share of oil revenues. Today, every citizen of Alaska

receives an annual payment of nearly \$2,000 from the Permanent Fund, which is managed by independent trustees. Unlike Alberta, Alaska does not invest in projects with a purely social purpose, instead looking to maximize financial returns on the Permanent Fund's assets.

The examples of Alberta and Alaska—and many others—demonstrate that a community trust can ably manage assets, and even pursue very different investment strategies. But fair exchange requires a mandate by the federal government. Without one, states will remain in the prisoner's dilemma of economic development: to recruit or retain businesses, you have to give away the tax base; to refuse to erode your tax base means that you'll never land a new business and existing ones will move to states that will play the game. This mandate could be as straightforward as conditioning highway funding on the implementation of fair exchange, an approach that has worked to enact other nationwide public policies like nationwide maximum speed limits and a minimum drinking age.

Globalization has exacerbated a long-standing tension between immobile communities and mobile capital. By insisting on a fair exchange, the federal government can ensure that economic development—a worthy goal—does not devolve into the worst form of corporate welfare. And, in ending the practice of unrequited tax subsidies, the federal government can assist in the creation of community assets that, more than any tax abatement, will hasten the arrival of prosperity in disadvantaged communities. ▀

Affordable Long-Term Care

Jeanne Lambrew

America is in desperate need of a long-term care solution. Nearly 30 percent of men and 44 percent of women turning age 65 are likely to need nursing home care at some point before they die. The cost of this care can be devastating; nursing home care averages \$70,000 annually. Yet long-term care financing is the only area of the health system in which we under-spend compared to peer nations. On the verge of the Baby Boomers' retirement—the 65+ population will increase by some 30 million over the next 20 years, a three-fold increase over the previous two decades—the United States is utterly unprepared to finance their long-term care needs.

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