Corporate Welfare

A TIME Magazine Investigation
1998

A TIME investigation uncovers how hundreds of companies get on the dole--and why it costs every working American the equivalent of two weeks' pay every year

How would you like to pay only a quarter of the real estate taxes you owe on your home? And buy everything for the next 10 years without spending a single penny in sales tax? Keep a chunk of your paycheck free of income taxes? Have the city in which you live lend you money at rates cheaper than any bank charges? Then have the same city install free water and sewer lines to your house, offer you a perpetual discount on utility bills--and top it all off by landscaping your front yard at no charge?

Fat chance. You can't get any of that, of course. But if you live almost anywhere in America, all around you are taxpayers getting deals like this. These taxpayers are called corporations, and their deals are usually trumpeted as "economic development" or "public-private partnerships." But a better name is corporate welfare. It's a game in which governments large and small subsidize corporations large and small, usually at the expense of another state or town and almost always at the expense of individual and other corporate taxpayers.

Two years after Congress reduced welfare for individuals and families, this other kind of welfare continues to expand, penetrating every corner of the American economy. It has turned politicians into bribery specialists, and smart business people into con artists. And most surprising of all, it has rarely created any new jobs.

While corporate welfare has attracted critics from both the left and the right, there is no uniform definition. By TIME's definition, it is this: any action by local, state or federal government that gives a corporation or an entire industry a benefit not offered to others. It can be an outright subsidy, a grant, real estate, a low-interest loan or a government service. It can also be a tax break--a credit, exemption, deferral or deduction, or a tax rate lower than the one others pay.

The rationale to curtail traditional welfare programs, such as Aid to Families with Dependent Children and food stamps, and to impose a lifetime limit on the amount of aid received, was compelling: the old system didn't work. It was unfair, destroyed incentive, perpetuated dependence and distorted the economy. An 18-month TIME investigation has found that the same indictment, almost to the word, applies to corporate welfare. In some ways, it represents pork-barrel legislation of the worst order. The difference, of course, is that instead of rewarding the poor, it rewards the powerful.

And it rewards them handsomely. The Federal Government alone shells out $125 billion a year in corporate welfare, this in the midst of one of the more robust economic periods in the nation's history. Indeed, thus far in the 1990s, corporate profits have totaled $4.5 trillion--a sum equal to the cumulative paychecks of 50 million working Americans who earned less than $25,000 a year, for those eight years.

That makes the Federal Government America's biggest sugar daddy, dispensing a range of giveaways from tax abatements to price supports for sugar itself. Companies get government money to advertise their products; to help build new plants, offices and stores; and to train their workers. They sell their goods to foreign buyers that make the acquisitions with tax dollars supplied by the U.S. government; engage in foreign transactions that are insured by the government; and are excused from paying a portion of their income tax if they sell products overseas. They pocket lucrative government contracts to carry out ordinary business operations, and government grants to conduct research that will improve their profit margins. They are extended partial tax immunity if they locate in certain geographical areas, and they may write off as business expenses some of the perks enjoyed by their top executives.

The justification for much of this welfare is that the U.S. government is creating jobs. Over the past six years, Congress appropriated $5 billion to run the Export-Import Bank of the United States, which subsidizes companies that sell goods abroad. James A. Harmon, president and chairman, puts it this way: "American workers...have higher-quality, better-paying jobs, thanks to Eximbank's financing." But the numbers at the bank's five biggest beneficiaries--AT&T, Bechtel, Boeing, General Electric and McDonnell Douglas (now a part of Boeing)--tell another story. At these companies, which have accounted for about 40% of all loans, grants and long-term guarantees in this decade, overall employment has fallen 38%, as more than a third of a million jobs have disappeared.

The picture is much the same at the state and local level, where a different kind of feeding frenzy is taking place. Politicians stumble over one another in the rush to arrange special deals for select corporations, fueling a growing economic war among the states. The result is that states keep throwing money at companies that in many cases are not serious about moving anyway. The companies are certainly not reluctant to take the money, though, which is available if they simply utter the word relocation. And why not? Corporate executives, after all, have a fiduciary duty to squeeze every dollar they can from every locality waving blandishments in their face.

State and local governments now give corporations money to move from one city to another--even from one building to another--and tax credits for hiring new employees. They supply funds to train workers or pay part of their wages while they are in training, and provide scientific and engineering assistance to solve workplace technical problems. They repave existing roads and build new ones. They lend money at bargain-basement interest rates to erect plants or buy equipment. They excuse corporations from paying sales and property taxes and relieve them from taxes on investment income.

There are no reasonably accurate estimates on the amount of money states shovel out. That's because few want you to know. Some say they maintain no records. Some say they don't know where the files are. Some say the information is not public. All that's certain is that the figure is in the many billions of dollars each year--and it is growing, when measured against the subsidy per job.

In 1989 Illinois gave $240 million in economic incentives to Sears, Roebuck & Co. to keep its corporate headquarters and 5,400 workers in the state by moving from Chicago to suburban Hoffman Estates. That amounted to a subsidy of $44,000 for each job.

In 1991 Indiana gave $451 million in economic incentives to United Airlines to build an aircraft-maintenance facility that would employ as many as 6,300 people. Subsidy: $72,000 for each job.

In 1993 Alabama gave $253 million in economic incentives to Mercedes-Benz to build an automobile-assembly plant near Tuscaloosa and employ 1,500 workers. Subsidy: $169,000 for each job.

And in 1997 Pennsylvania gave $307 million in economic incentives to Kvaerner ASA, a Norwegian global engineering and construction company, to open a shipyard at the former Philadelphia Naval Shipyard and employ 950 people. Subsidy: $323,000 for each job.

This kind of arithmetic seldom adds up. Let's say the Philadelphia job pays $50,000. And each new worker pays $6,700 in local and state taxes. That means it will take nearly a half-century of tax collections from each individual to earn back the money granted to create his or her job. And that assumes all 950 workers will be recruited from outside Philadelphia and will relocate in the city, rather than move from existing jobs within the city, where they are already paying taxes.

All this is in service of a system that may produce jobs in one city or state, thus fostering the illusion of an uptick in employment. But it does not create more jobs in the nation as a whole. Market forces do that, and that's why 10 million jobs have been created since 1990. But most of those jobs have been created by small- and medium-size companies, from high-tech start-ups to franchised cleaning services. FORTUNE 500 companies, on the other hand, have erased more jobs than they have created this past decade, and yet they are the biggest beneficiaries of corporate welfare.

To be sure, some economic incentives are handed out for a seemingly worthwhile public purpose. The tax breaks that companies receive to locate in inner cities come to mind. Without them, companies might not invest in those neighborhoods. However well intended, these subsidies rarely produce lasting results. They may provide short-term jobs but not long-term employment. And in the end, the costs outweigh any benefits.

And what are those costs? The equivalent of nearly two weekly paychecks from every working man and woman in America--extra money that would stay in their pockets if it didn't go to support some business venture or another.

If corporate welfare is an unproductive end game, why does it keep growing in a period of intensive government cost cutting? For starters, it has good p.r. and an army of bureaucrats working to expand it. A corporate-welfare bureaucracy of an estimated 11,000 organizations and agencies has grown up, with access to city halls, statehouses, the Capitol and the White House. They conduct seminars, conferences and training sessions. They have their own trade associations. They publish their own journals and newsletters. They create attractive websites on the Internet. And they never call it "welfare." They call it "economic incentives" or "empowerment zones" or "enterprise zones."

Whatever the name, the result is the same. Some companies receive public services at reduced rates, while all others pay the full cost. Some companies are excused from paying all or a portion of their taxes due, while all others must pay the full amount imposed by law. Some companies receive grants, low-interest loans and other subsidies, while all others must fend for themselves.

In the end, that's corporate welfare's greatest flaw. It's unfair. One role of government is to help ensure a level playing field for people and businesses. Corporate welfare does just the opposite. It tilts the playing field in favor of the largest or the most politically influential or most aggressive businesses. In the next story, and those that follow in the coming weeks, you will meet the beneficiaries of corporate welfare--and the people who pay for it.

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Durant, Mississippi: Where It All Began

In 1936, in the midst of the great depression, Mississippi fired the first shot in what is now an internecine, multibillion-dollar battle for jobs among the states. The idea was simple enough: lure businesses from the North with offers of cheap and abundant nonunion labor, low-priced land, minimal taxes and, for the first time, state-sponsored, tax-exempt industrial-revenue bonds. In other words, a coordinated effort to raid other states for their corporations.

The first beneficiary was Real Silk Hosiery Mills Inc. The company, based in Indianapolis, Ind., employed 4,000 knitting-machine operators who turned out half a million pairs of hosiery weekly, which were peddled door to door across the nation by 11,000 sales reps. Hurt first by the Depression and then by a bitter strike in 1934, Real Silk was working its way back to solvency in 1936 when Mississippi came calling.

The town of Durant (pop. 2,500), a farming community with more sidewalks than paved streets, was offering to issue $25,000 in industrial-revenue bonds to buy land and erect a 15,000-sq.-ft. building, which it would lease to Real Silk for 25 years for all of $5 a year. In addition, Durant would waive five years of county taxes on the building and property taxes on the machinery. On top of that, the city would provide insurance, set up a training school and even erect housing for workers. In a front-page editorial that sounds eerily familiar, the Durant News crowed that the project was a great deal for the town. In a special election, the town's voters approved the bond issue, 330 to 19. The people of Durant were in the hosiery business.

At least for a while. Indeed, nine years later, in December 1946, Durant's citizens approved a second bond issue of $60,000 to expand the plant. At its peak, the Durant factory employed about 150 people. They worked three shifts daily, turning out 84,000 pairs of hosiery each week.

By the mid '50s, all that came to an end. Before the first bond was due to be paid off, Real Silk shut all its factories, including Durant, sold off the equipment and became an investment company. The lesson, one that has been lost on generations of mayors, Governors and Presidents, is that capital ultimately ignores such incentives. It seeks its highest reward as dictated by market forces, not political ones. The building that was to put Durant on the industrial map still stands--empty.

And Mississippi? It was the poorest state in the nation when its corporate-welfare program began in 1936. Today, 62 years and hundreds upon hundreds of millions of dollars in economic incentives later, it remains dead last in per capita income.

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The Scramble For Jobs
Playing The Zero-Sum Game

If you have any doubt that the war among the states to offer tax breaks and other economic incentives is a zero-sum game that creates no jobs, consider the case of the Bagcraft Corp., based in Chicago. In 1993, Bagcraft, whose claim to fame is the doggie bag, let out word that the paper bag-making factory it had operated in Joplin, Mo., for more than 20 years would be replaced.

Six towns in Missouri, Kansas and Colorado jumped at the bait, offering the company free land, infrastructure improvements and real estate-tax abatements. Meanwhile, Joplin tried hard to keep Bagcraft in town, assembling what a city official described as the most aggressive incentives package in this small (pop. 45,000) city's history--tax abatements for as long as 12 years, plus a town-funded day-care center for Bagcraft employees. "When you offer a private company incentives worth $5 million, coming from the taxpayers, I don't know how much more you can do," said Joplin city manager Leonard Martin.

Neighboring Baxter Springs, Kans., came up with more--a lot more. Working with state officials, the town of 4,000 crafted a deal that included free land and a 10-year exemption from real estate taxes. But Baxter Springs trumped Joplin by finding a low-interest loan from the U.S. Department of Housing and Urban Development. The final tab: $15.8 million, or more than seven times the size of the town budget.

Not surprisingly, Baxter Springs won out. In 1994, Bagcraft closed the Joplin plant and moved 20 miles west across the state line to a new $12 million, 265,000-sq.-ft. facility.

All this was cause for celebration in Baxter Springs when, on Nov. 18, 1994, corporate and civic leaders gathered to dedicate the new plant. Of the participants, none was more pleased than then Kansas Governor Joan Finney. "Dreams are the seedlings of reality," she told the crowd. "Seeing what has been brought to reality here, through governmental cooperation at all levels with the company, is perhaps one of the best days I've had in 42 years of government service at different levels."

Let's hope not.

Baxter Springs did get 350 jobs, but Bagcraft did not create 350 jobs. Roughly half the work force transferred from the Joplin plant when it closed. Additional employees migrated from other Bagcraft plants that were closed.

The bottom line for the company's payroll: in 1993 about 700 people were making bags and other paper products at four Bagcraft plants. According to a company spokesman, today that number is the same.

WHAT WAS PAID OUT

$15.8 million, including free real estate, a 10-year freeze on property taxes and a low-interest loan from HUD

HOW IT PAID OFF

It didn't. Bagcraft closed plants in Missouri, New Jersey and Georgia. New jobs created nationwide: zero

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Time Warner
We Play the Game Too

Like most major corporations, Time Warner Inc., the parent company of TIME, has received millions of dollars in tax concessions or free services from federal, state and local governments over the years. The benefits include:

--A $2 million-a-year exemption from Florida sales taxes on promotional items mailed from the Time Customer Service Center in Tampa, which sells and renews magazine subscriptions to TIME, PEOPLE, LIFE and SPORTS ILLUSTRATED.

--A five-year freeze on real and personal property taxes (a savings of $224,550) from Shelby County and Memphis, Tenn., on an operations center for cable installers.

--A rebate of $168,800 from Simi Valley, Calif., to defray construction costs of a warehouse for Warner/Electra/Atlantic Corp., a music subsidiary.

Time Warner is based in New York City, and the company is expected to ask the city for a large incentives package for building its new headquarters at Columbus

Circle, on the southwest corner of Central Park. Known as Columbus Centre, the $1.3 billion project has been called by one developer the "Rockefeller Center of the 21st Century." Time Warner president Richard D. Parsons confirmed that the company would ask for tax breaks--though he emphasized that the project was not contingent upon receiving them.

If Time Warner gets a special deal from New York, it will join a host of media companies that have received tax relief and other incentives worth an estimated $400 million to build new offices or to keep their work forces in New York. The list includes Germany's Bertelsmann AG, which now owns Random House and Bantam Doubleday Dell; ABC, part of the Walt Disney Co.; Conde Nast; McGraw-Hill; NBC, owned by General Electric; the New York Times Co.; the New York Post and its parent company, the News Corp., which also owns Fox; Reuters; and Viacom.

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The Empire Of The Pigs

A LITTLE-KNOWN COMPANY IS A MASTER AT MILKING GOVERNMENTS FOR WELFARE

"This is quite a Christmas present," said Harlan Nelson, then mayor of Albert Lea, Minn., on that December day in 1990 when he learned that a closed factory in the town would reopen. "Fairy tales do come true!"

The fairy godmother turned out to be Seaboard Corp., a giant of agribusiness with headquarters in Merriam, Kans., and controlled out of Chestnut Hill, Mass. Seaboard officials announced that they would restart the shuttered pork-processing plant that had once been the town's largest employer--if the city offered a little help. Albert Lea responded by giving Seaboard a $2.9 million low-interest loan and a special deal on its sewer bill and grading and paving parking lots for employees. And before long, the plant reopened, and several hundred workers were back on the job.

That's when the process began by which the fairy tale turned into a very bad dream. Just four years later, in 1994, Seaboard phased out the plant and moved its hog-slaughtering operations to another town 800 miles away, which came up with an even larger corporate-welfare package. Albert Lea was left saddled with debt, higher utility bills and an abandoned slaughterhouse. The entire episode, says City Manager Paul Sparks, was a "disaster."

This is the story of how an extremely resourceful corporation plays the welfare game, maximizing the benefits to itself, often to the detriment of those who provide them. It's also a vivid reminder to cities and towns everywhere about the potential long-term liabilities they may one day face by spending public funds to get results that are best achieved by the free market.

Seaboard is a publicly owned company, but in fact it is the fiefdom of a reclusive Boston-area family (more on that later). A sort of mini-conglomerate, Seaboard has interests in hogs, strawberries, chickens, shrimp, salmon, flour and wine. Its operations span four continents and nearly two dozen countries and range from cargo ocean liners to sugarcane. And like other profitable businesses, it collects subsidies--or, more accurately, corporate welfare--from local, state and federal governments. Indeed, officials trip over one another in the rush to extend taxpayer support to Seaboard--from the Federal Government's Overseas Private Investment Corp. (OPIC) in Washington to the Kansas state agency responsible for industrial development, to the utility authority in little Guymon, Okla. Wherever Seaboard is, there is a government throwing money at it. Money the company uses to build and equip plants, hire and train workers, export its products and expand overseas.

This Little Piggy Skipped Town

For a closeup view of Seaboard, let's begin with Albert Lea. For most of this century, Wilson Foods operated that pork plant and was the town's largest employer. Wilson fell on hard times in the early 1980s, cut workers' average annual pay from $22,200 to $16,600 and eventually sold the plant to Farmstead Foods. In turn, that company went belly-up a few years later, after it lost its biggest customer--Wilson. Then, in December 1990, just as workers were receiving the last of their unemployment checks, Seaboard appeared.

Once the company negotiated its sweetheart deal with the city, the Chamber of Commerce erected a billboard declaring, 35,000 FRIENDLY PEOPLE WELCOME SEABOARD CORP. At an appreciation luncheon, Rick Hoffman, Seaboard's vice president of finance, observed that it is "really a pleasure to be associated with such a fine community and to have such a quality work force."

The more than $3 million Albert Lea handed out to help reopen the plant represented only the latest installment in corporate-welfare payouts. Because hog killing created serious pollution problems, Albert Lea earlier had kicked in $3.4 million to build a wastewater-treatment plant devoted mostly to servicing the pig factory. The hogs had your help as well: the Federal Government contributed $25.5 million, while the state of Minnesota gave $5.1 million. Total cost of the sewage plant: $34 million. The city also built new roads and water lines to the plant, built a parking lot and came up with $1 million to help erect a hog-slaughtering building.

Hoffman, Seaboard's vice president of finance, took note during that luncheon of the stream of government aid: "We're especially grateful to the state of Minnesota and the city of Albert Lea, who together since 1984 have supplied literally millions of dollars in the form of grants, tax incentives and loans to the facility. They had a lot of confidence in it... Truly this has been a lesson in economic development."

A lesson was about to unfold, all right--a textbook study of the fickle results of corporate welfare. Seaboard was unable to attract enough workers from Albert Lea to run the plant. Many former Farmstead employees had already left the area in search of work. More than 100 had retired. Still others declined to work for Seaboard wages--$4,500 a year less than the plant's 1983 wage, and no vacation the first year on the job.

Seaboard's solution: recruit Hispanic laborers from other areas of the U.S. as well as from Mexico and Central American countries like Guatemala. Soon the recently arrived immigrants began to stream into Albert Lea--with no money and no place to stay. It was a practice Seaboard would repeat in other towns, in other states.

It became common for several workers to share a room. Families couldn't afford local rents on a Seaboard wage. Eventually some went on welfare. In short, corporate welfare begot individual welfare.

Meantime, Seaboard failed to invest in upgrading its sewage-pretreatment facility. As a result, its waste began to overwhelm the city's municipal treatment plant. The city normally placed its treated sludge on soybean cropland, but by the second summer, city officials were in search of more land. As Sparks recalls, "We had so much sludge accumulation that...we had to go out in the middle of the summer, buy a crop [for $36,000] and plow it under because our storage capacity was exceeded."

Rather than overhaul the plant, Seaboard responded in the classic manner of corporate-welfare artists: it began quietly looking around for another town, another state. Alarmed, Albert Lea and Minnesota came up with an additional $12.5 million in incentives to keep the plant. But Seaboard had found a bigger patsy--Guymon (pop. 7,700), in Texas County, Okla. Guymon, the county and the state put together an economic incentive package worth $21 million to entice Seaboard to the Oklahoma Panhandle, a section of the country where hogs and cattle far outnumber people.

Among the subsidies: Texas County borrowed $8 million to plow into the company up front. To pay off the loan, the county enacted a 1% sales tax. The state granted a $4 million, 10-year income tax credit with the understanding that it was "unlikely" the company would pay any income tax during those 10 years. The state spent $600,000 to train Seaboard's workers. The company received grants and low-interest loans to finance a waste-pretreatment plant. (Remember the one in Albert Lea?) The company was excused from paying $2.9 million in real estate taxes.

As always, local and state officials were on hand when Seaboard announced in August 1992 that it would employ as many as 1,500 workers at its new pork-production facility. In time the plant will slaughter 4 million pigs a year. Oklahoma Governor David Walters declared the plant "a huge and much deserved economic boost to the entire Panhandle area, and to the state."

Meanwhile, back in Minnesota, Seaboard's local president was reassuring newspapers that the Albert Lea plant would remain open.

That was in August 1992. Seventeen months later, in January 1994, Seaboard announced that it would shutter its hog-slaughtering operations and lay off upwards of 600 employees. The company said it would keep about 300 workers to process and produce ready-to-buy meats like bacon, sausage and ham. (The number of employees eventually dropped to about 200, and Seaboard sold the business.)

It was not just Oklahoma's subsidies that persuaded Seaboard to relocate. The Albert Lea work force was unionized; wages had risen to $19,100 a year--still $3,100 below their level in 1983, but too rich for Seaboard's blood. Guymon, by contrast, promised low-wage, nonunion labor. Also, Seaboard had decided it wanted to raise its own hogs for slaughter, not just buy them from farmers. Minnesota banned corporate hog farms. Oklahoma had had a similar ban but had repealed it before Seaboard came along.

When Seaboard moved on to Guymon, it left behind in Albert Lea the abandoned hog-slaughtering building, empty parking lots, a waste-treatment plant that now operates at only 50% of capacity and higher sewer bills to pay for it. And when Seaboard walked, the state had to come up with some $700,000 to retrain displaced workers or help them find new jobs.

"For 15 years, the community devoted the major portion of its federal and state legacy and a good share of local money to providing improvements to keep the slaughtering plant in our community [for Seaboard and its predecessor]," says Sparks. "In retrospect," he says ruefully, "the money could have been better used."

Ever Buy a Pig in a Poke?

In Oklahoma, it was starting to seem like deja vu all over again. The $21 million that state and local governments put up to bring Seaboard to the Panhandle was just the start. Guymon, like Albert Lea, couldn't supply the work force required by Seaboard. In time the company would need workers by the thousands. That's because the turnover rate in all processing plants runs close to 100% a year owing to the low wages. This slaughterhouse, one of the world's largest, will eventually kill an average of eight hogs a minute, 24 hours a day, 365 days a year--more than 4 million annually. So Seaboard repeated the Albert Lea hiring process--it attracted immigrant workers, some Laotian and Vietnamese, but most from Mexico, Guatemala, Honduras and other Central and South American countries. Some turned out to be illegal immigrants.

Just getting there was no easy feat, since Guymon, which calls itself "An American Original," is located in a less than convenient spot--320 miles east of Santa Fe, N.M., 335 miles west of Tulsa, 125 miles north of Amarillo, Texas, and 500 miles from the Mexican border. The nearest bus stops are in Liberal, Kans., 40 miles to the north, and Stratford, Texas, 40 miles to the south. As was the case in Albert Lea, the freshly arrived immigrants had no place to stay, and the town that had never had a homeless shelter was forced to open one. Volunteers cleaned, repaired and painted a vacant motel. Unemployed individuals and families could stay up to one week at a cost of $10 a day, which included two meals. If they found work--largely at Seaboard--they could stay up to 90 days while they saved money for a permanent home.

Simultaneously, the state began training Seaboard workers even before the plant opened. Curriculums were provided in English, Spanish, Laotian and Vietnamese. In all, 3,300 Seaboard workers received training. The cost to taxpayers: $617,168.

Other costs began to pop up. By 1997 the Guymon schools bulged with new students. All grades exceeded the state-mandated teacher-pupil ratio. And enrollment is expected to jump one-third by the year 2000. Adding to the turmoil of overcrowding was the confusion about language. The district was compelled to add English-as-a-second-language classes. This year about 450 students, or 21%, were judged to have limited proficiency in English.

Some parents began to complain that their children were getting no education at all. But when the school district proposed $1.6 million in bond issues for new classrooms, equipment and buses, voters said no. The reason? A general anger directed at the huge hog farms. And a belief that Seaboard Corp. was not paying its way. Which, of course, it was not.

In 1997 the Oklahoma legislature agreed to spend $700 million on state roads and bridges. Of that figure, Guymon's and Texas County's share amounted to $37.3 million. That worked out to a per capita highway spending in Texas County of $2,200--or some 10 times what was earmarked for the rest of the state. Needless to say, most of the roadwork benefited Seaboard.

In addition, $47 million--a disproportionate amount--of the state's five-year capital-improvement program was set aside for Texas County for highway work to accommodate Seaboard truck convoys, which in time would haul 10,000 hogs a day into Guymon from all directions.

Then there was the local tax relief. For the 1996-97 fiscal year, Seaboard's Texas County tax bill totaled $1,118,000, according to John DeSpain, then county assessor. The state tax commission excused Seaboard from $700,000 of those taxes--on the grounds that the new hog farms and slaughterhouse qualified as "manufacturing." The state, in turn, sent Texas County that sum from a special fund. In short, all other Oklahoma taxpayers picked up 63% of Seaboard's tax bill.

There's more: the company didn't even want to pay all the remaining $418,000, so it appealed. It won, and the state agreed to absorb an additional $193,000. In other words, the state paid 78% of Seaboard's real estate taxes.

As for the 1997-98 fiscal year, DeSpain said, Seaboard's tax bill increased to $1,580,000. The company was immediately excused from paying $1,090,000 of that--again, money that all other Oklahoma taxpayers must pay. Once more, Seaboard was dissatisfied and appealed. And again, the state consented to pick up $226,000 more. The bottom line: Seaboard was obliged to come up with just 17% of the taxes owed.

It should be noted that Seaboard did agree early on to contribute $175,000 to the Guymon schools each year--on the grounds that the old plant it replaced in 1992 had been taxed that amount. Even with that donation, its payments fall far short of what the company really owes. And it doesn't come close to providing the schools with the revenue needed to pay for Seaboard's presence in the community. One might think that would discourage other school districts from negotiating similar agreements. One would be wrong.

In December 1997 Seaboard promised to pay $125,000 to the Keyes schools in Cimarron County, which adjoins Texas County to the west. The money would allow the school system to replace the wiring and reopen a shuttered elementary school. In turn, Keyes agreed it would not oppose company plans to build a feed mill and 400 barns to house an additional 400,000 hogs.

Besides ballooning school costs, Keyes also may look forward to another set of rising statistics: crime. From 1991 to 1997 in Guymon, serious crimes went up 61%. Larcenies increased 50%, assaults jumped 96%, and auto theft shot up 200%. Rapes went from none to five. And for the first time, youth gangs appeared on Guymon streets. A resident says that "some students have expressed fear of even going to the rest room in the high school."

Hog Heaven? Try Hog Hell

In a way, Guymon is fortunate that it has little available housing. If it did, the social costs it is paying for Seaboard's presence would have been worse. As it is, Seaboard workers often must settle in distant areas, like Liberal, Kans., another meat-packing center and magnet for immigrant workers. When Seaboard proposed establishing a hog farm in Seward County, where Liberal is the largest community, residents voted 3 to 1 to block construction. Nevertheless, Kansas state officials reportedly have assured Seaboard that the referendum is not binding.

The company already operates huge hog farms in five southwestern Kansas counties, where it accounts for more than one-quarter of the state's 1.5 million pig population. The pigs are raised in Kansas until they are ready for slaughter and are then trucked to the processing plant in Guymon. Kansas issued $9.6 million in industrial revenue bonds to help Seaboard develop the farms.

Actually, the term farm is a misnomer, for corporate hog farms bear no resemblance to traditional family farms. Instead, they are massive industrial operations. Call them pig factories.

In a long barn that houses about 1,000 animals, the hogs spend their days jammed next to one another, eating constantly until they grow from about 55 lbs. to 250 lbs. They stand on slatted floors so their wastes drop into a trough below that is flushed periodically into a nearby cesspit. The number of cesspits is exploding. From 1990 to 1998, the Oklahoma pig population soared 761%, jumping from 230,000 to 1.98 million, with Seaboard accounting for about 80% of that number.

It is not pleasant living amid this. Just ask Julia Howell and her husband Bob. The couple live on a farm near Hooker, about midway between Guymon and Liberal, where four generations of Howells have grown wheat and raised families. Now feisty Julia Howell, 69, talks about her "40,000 neighbors" and explains why she seals the farmhouse windows, stuffs pillows into the chimney and seldom ventures outdoors without a face mask.

It's the ever present stench--the overpowering smell from Seaboard's 40,000 hogs closely confined in 44 metal buildings, where exhaust fans continuously pump out tons of pungent ammonia, mixed with tons of grain dust and fecal matter, scented with the noxious odor of hydrogen sulfide (a poisonous gas produced by decaying manure that smells like rotten eggs), all combined with another blend of aromas wafting from five cesspits each 25 ft. deep and the size of a football field. They are, in effect, open-air sewage ponds, and 75 ft. below lies the Ogallala aquifer, which provides drinking and irrigation water for much of that part of the country.

Think of all that waste this way: imagine that you are sitting on the front porch of your farmhouse on the prairie, surrounded by four Washington Monuments, each filled to the top with pig manure. And then there are all the dead pigs lying about. By law, the carcasses are supposed to be deposited in Dumpsters with the lids tightly closed, and the contents disposed of daily. But with hundreds of thousands of hogs dying before their time each year, Seaboard often falls behind in disposing of them. Sometimes the overflow from Dumpsters is stacked nearby. Sometimes dead hogs are piled up beside barns, sometimes at the side of the road. And sometimes they lie about so long that the flesh rots away.

After issuing repeated warnings to Seaboard, the Oklahoma agriculture department fined the firm $157,500 in December 1997 for improper disposal. After an appeal, the company paid the state $88,200 for the infractions. In all, the Seaboard death toll reached 48 hogs an hour in 1997--420,000 for the year. And the carcasses are picked up only once a day--assuming the dead-pig truck is on schedule. Sometimes it isn't. Which is why at any given moment during the day there are hundreds of dead hogs lying about the fields of Texas County.

For the past two years, Julia Howell has recorded in a diary life with the blended smells from rotting hogs and cesspools and the breezes from hog barns:

Monday, July 1, 1996: "80[degrees]. Calm. Tried to sit outside a while. Impossible without a mask. What a life!!"

Monday, July 8, 1996: "Had a storm at 70[degrees]. It rained toxic fumes 7:30 p.m. Horrible during rain!!!"

Wednesday, July 24, 1996: "Calm. 80[degrees]. 9:30 p.m. It would take two masks tonight."

The smell has forever altered the Howells' way of life. "We celebrated our 50th anniversary here this year," she says. "But, you know, when the hog fumes come rolling in, you can't plan on anything. I haven't had people in for dinner [for two years] because I'd probably have to meet them out on the driveway with a mask for them to get to the house.

"We thought we were at the point that we could retire. And, of course, the rhetoric from Seaboard is, 'Well, my goodness, your land, your home, it's worth more than you ever dreamed because of us coming in next to you...' Our kids couldn't sell this if they needed the money to bury us with. It's just devaluated to nothing as far as the market's concerned."

The story is much the same for Vancy Elliott and her husband Delmer, who live about three miles from Guymon and whose land abuts a Seaboard hog farm. "We have to put flytraps out in the summer," says Elliott. "But we even have flies occasionally in the winter now, and we've never had that before. Rats and mice are a real problem because they have so many pigs that are dying."

To help staff its hog-processing plant and farms, Seaboard has re-created the corporate model employed by the coal barons of the 1800s, whose workers lived in company-owned houses and shopped in company-owned stores.

In Guymon, Seaboard and local business leaders invested in an apartment complex and trailer parks to house the company's employees. Rent is automatically deducted from the paychecks of Seaboard workers. So, too, is the cost of meals that they eat at the plant. A two-bedroom apartment goes for $420 a month; for three bedrooms, $485. A Seaboard worker earns about $300 a week--before Social Security and income taxes are deducted.

"The people never see this money," said Carla Smalts, a rancher who campaigned against corporate hog farming while at the same time waging an ultimately losing battle against cancer. "It comes off the top of their paycheck right to Seaboard," she told TIME in December 1997. "By the time they pay Seaboard their rent and the meals are taken off out at the plant--and most of them eat at least one or two meals out there--they don't have a whole lot left. There's no way these people are going to buy houses." Carla Smalts died in August 1998 at age 52.

Bringing Home The Bacon

Let us recount, for a moment, some of Seaboard's corporate welfare in the 1990s: Minnesota provided more than $3 million in economic incentives; Kentucky, $23 million; Kansas, $10 million; and Oklahoma, $100 million. The Federal Government's OPIC provided $25 million in insurance for business ventures abroad. As for the financial burdens imposed on other taxpayers by virtue of Seaboard's presence, no one knows the cost. It is in the tens of millions of dollars. And all this for jobs that pay little more than poverty-level wages.

All this welfare has helped propel Seaboard into the front ranks of American pork producers. As recently as 1989, the company did not own a single hog. This year it's the No. 5 producer in the country--and about to vault higher. Seaboard plans to build yet another processing plant, capable of slaughtering 4 million hogs a year, thereby doubling its output.

So who really profits from all of this? A secretive Boston family of millionaires.

Seaboard's stock is traded on the American Stock Exchange, and last week it closed at $387 a share. Some 75% of that stock is owned by another company, called Seaboard Flour Corp., and 95% of Seaboard Flour is owned by brothers H. Harry and Otto Bresky Jr., their sister Marjorie B. Shifman and family trusts. All told, the family's stock in Seaboard is worth $425 million.

And who are the Breskys? A Boston Business Journal article published in February 1993 described them this way: "The Bresky family could teach J.D. Salinger a thing or two about maintaining a low profile... Try [to] find anyone in Boston who has even heard of the family, and you draw nothing but blanks... The Breskys have never held memberships with local Chambers of Commerce or positions on the boards of local companies and nonprofit organizations." Two months later, in April 1993, the Kansas City Star published a similar report: "Seaboard declined to be interviewed for this article, following a standard practice for at least a decade. That practice has helped Seaboard avoid press coverage almost totally.

"'We kind of like it that way,' said Marshall Tutun, a Boston lawyer who is Seaboard's corporate secretary. 'We're modest, humble, unassuming folk, and our stock is rather thinly traded.'"

Indeed, Seaboard's offices in Chestnut Hill, Mass., are a testimonial to anonymity and modesty. The executive offices of the company with annual sales of $1.8 billion are confined to several small rooms on the third floor of a frayed four-story building in a strip mall on the western edge of Boston. With stained orange carpets, faded paint and a warren of empty offices, the building is home to a number of small businesses, including a hair and nail salon, a furrier, a jeweler, a facial salon, an electrologist and a marketing firm. Notes are affixed to unmarked office doors advising delivery people to "put envelope under door."

It is from this location, as well as a suite in the San Carlos Hotel in midtown Manhattan, that 72-year-old Harry Bresky masterminds the day-to-day business operations of the family's global empire.

Harry Bresky, president of both Seaboard Corp. and Seaboard Flour, presides over a work force of 12,000 employees, 10,200 of them in the U.S. Holdings include flour mills in Ecuador, Guyana, Haiti, Mozambique, Nigeria, Sierra Leone and Democratic Republic of Congo; feed mills in Ecuador, Nigeria and Congo; 3,100 acres of shrimp ponds in Ecuador and Honduras; 37,000 acres of sugarcane, 4,200 acres of citrus and a sugar mill, all in Argentina; a winery in Bulgaria; other agricultural and business interests in Chile, Colombia, Costa Rica, Guatemala and Venezuela; electric-power-generating facilities in the Dominican Republic; shipping companies in Liberia; containerized cargo vessels running between Miami and Central and South America; and, of course, the processing plant and hog farms in Oklahoma, Kansas, Texas and Colorado, along with poultry-processing plants, feed mills, hatcheries and a network of 700 contract chicken growers in Alabama, Georgia, Kentucky and Tennessee.

Harry Bresky, who earned just under $1 million in salary and bonus last year as Seaboard's top officer, didn't respond to TIME's requests for an interview. But details of the business dealings of Seaboard and Bresky have emerged in a series of lawsuits filed over the years.

It all began in 1987, when Bresky fired Seaboard's vice president and chief financial officer, Donald Robohm, who had been with the company for more than a decade. Robohm sued, charging "illegal and improper activity by Seaboard and other components of the Flour conglomerate, as directed by Bresky."

Robohm claimed the activities included "improper diversion of corporate opportunities from Seaboard," a public company, to Seaboard Flour, Bresky's private company. When Robohm refused to "cover up the conduct," he claimed, Bresky fired him for "not being 'a team player.'"

The lawsuit was settled and, according to court documents, both parties are prohibited from disclosing "information concerning the substance of the...litigation and the substantive terms of its settlement."

Three years later, in 1990, Alan R. Kahn, a Wall Street investment broker and Seaboard stockholder, filed a lawsuit in Delaware seeking an accounting of the profits earned by the Breskys through their intercompany dealings. Kahn alleged that the Breskys required Seaboard Corp. to enter into business deals with Seaboard Flour that generated "unlawful profits" for Seaboard Flour. In short, according to Kahn's allegations, the Breskys used their controlling positions in the two companies to move money from the public company to their private business.

Robohm was subpoenaed in the Kahn lawsuit, and he recited a litany of business dealings in which, he said, Bresky had interests in companies that profited from inflated contracts with Seaboard Corp. According to his deposition, kickbacks were paid to officials in foreign governments; contracts were padded, with the excess money diverted to Swiss bank accounts; management fees were inflated; brokerage commissions ran 2 1/2 to five times the usual rate. And in the case of one Seaboard subsidiary, "there was a great deal of cash that was...unaccounted for."

In his deposition, Robohm recounted the time a top Seaboard executive dropped by his office to ask whether he had set aside money for Bresky in a contract that was being negotiated for a manufacturing plant in Nigeria. Robohm recalled the meeting:

"He said, 'Have you thought about including something in this for Harry?'

"I said, 'No...that thought didn't occur to me.'

"He said, 'You know that these are important considerations when you look at an investment of this size; that you need to have something in this for Harry.'"

Robohm said he told the executive that "that's not the kind of thing that I do." He added that "it wasn't 60 days later that I was taken off that project."

The litigation dragged on for four years. Finally, in 1994, the lawsuit was settled when Seaboard Flour and the Breskys, without admitting "any liability or wrongdoing," agreed to pay $10.8 million to Seaboard Corp. For practical purposes, that meant the Breskys transferred money from the family-owned Seaboard Flour to the publicly traded but still family-controlled Seaboard Corp.

As for Harry Bresky, financial statements filed in the Kahn legal case show that in 1991 he reported a net worth of $84 million. That was back when Seaboard stock was less than half its present value. Like many millionaires, Bresky also enjoyed a comparatively low federal tax rate. On his 1990 U.S. income tax return, he reported adjusted gross income of $2.243 million and paid $503,000 in federal income and Social Security taxes. His effective overall tax rate worked out to 22.4%--just a few percentage points above the 16.8% rate paid by families earning $35,000 a year. Of course, Bresky had 64 times as much income.

From 1990 to 1997, Seaboard Corp. was the beneficiary of at least $150 million in economic incentives from federal, state and local governments to build and staff poultry- and hog-processing plants in the U.S.; insure its operations in foreign countries, and sell its products.

Local (and federal) taxpayers supplied the dollars not just for the outright corporate welfare, but also by picking up the costs of new classrooms and teachers, homelessness, increased crime, dwindling property values and an overall decline in the quality of life.

During those same years, the value of a share of Seaboard stock spiraled from $116 to $387, increasing the worth of the Bresky family holdings in the company from $125 million to $425 million.

Not bad work if you can get it. But you can't.

And that is the inequity of the entire, elaborate jerry-built system of corporate welfare that infects and distorts the American economy. We are all left holding the bill.

from TIME Magazine, 1998-Nov-16 (V152N20), by Donald L. Barlett and James B. Steele, with reporting by Laura Karmatz and Aisha Labi, and research by Joan Levinstein, from http://cgi.pathfinder.com/time/magazine/1998/dom/981116/special_report.corporat1a.html:

Fantasy Islands

AND OTHER PERFECTLY LEGAL WAYS THAT BIG COMPANIES MANAGE TO AVOID BILLIONS IN FEDERAL TAXES

From her second-floor offices bordering the sparkling Caribbean at Charlotte Amalie, the capital of the U.S. Virgin Islands, Catherine Sittig presides over one of the corporate-welfare system's most enduring success stories.

Sittig's company represents hundreds of U.S. corporations--she won't say exactly how many--that have offshore affiliates in the islands. This isn't as demanding as it might sound. It's largely a matter of filing papers and mailing out invoices. After all, the companies she represents are just paper entities. But they have come to represent a drain, created by Congress and perfectly legal, of $1.7 billion annually on the U.S. Treasury.

It works like this:

A company sets up what is called a foreign sales corporation. Companies can form FSCs in 32 countries designated by Congress--among them Jamaica and Barbados--or in a U.S. possession like the Virgin Islands. The company then funnels its exports (or, more accurately, the paperwork for its exports) through its offshore FSC. Presto: no federal income taxes on a portion of those export profits.

Just about every large U.S. corporation has an FSC; Intel, Eastman Kodak, General Motors, Caterpillar, Union Carbide, Chrysler, R.J. Reynolds and Georgia-Pacific are just a few. And why not? A corporation with an FSC can shelter 15% or more of its export profits from federal income tax.

Like so many corporate-welfare programs, this one isn't available to all companies. It goes only to those that export. The truth is, most large corporations that use the FSC break are already robust exporters and don't need much encouragement to ship abroad. They would export with or without the tax break. In this decade alone, this single corporate-welfare program has cost U.S. taxpayers more than $10 billion, with about $8 billion of that flowing to the largest corporations.

FSCs are but one of scores of corporate-welfare programs run out of Washington. At any given moment, one U.S. agency or another is passing out money or tax breaks--to subsidize activities ranging from shipbuilding to coal research, from the sale of U.S.-made weapons overseas to peanut farming. Washington helps buy crop insurance for tobacco, builds roads into national forests for the timber industry, sells minerals on public lands at bargain-basement rates and offers cut-rate electricity for businesses like casinos. The Feds help shippers that use inland waterways and bail out American banks with loans gone bad in foreign countries. It's the U.S. government's cafeteria of corporate welfare, and it's draining more than a third of a billion dollars a day--more than $125 billion a year--out of taxpayers' pockets.

Sometimes the welfare benefits extend beyond the companies to include their executives. The next time you fly and pay the 8% federal excise tax on airline tickets, plus a $2 surcharge to pay for air-traffic-control services, think of America's corporate bosses. They don't pay the tax or surcharge if they're flying on company planes--for business or pleasure. Though corporate jets pay a fuel tax, these revenues do not come close to covering their share of air-traffic-control costs. It works out to a subsidy of upwards of $350 million a year to corporate America. So far in the 1990s, this particular corporate-welfare program has cost taxpayers about $3 billion.

Frequent passengers on company planes are members of the House and Senate, Democrats and Republicans both--the people who make corporate welfare possible. In fact, lawmakers seem to end up on the corporate jets of the very same businesses that contribute to their campaigns or seek regulatory favors. Like Jesse Helms, the five-term North Carolina Republican Senator, who flies about in R.J. Reynolds Tobacco Co. planes and often takes to the floor of the Senate to support the tobacco industry. Under congressional rules, House and Senate members are permitted to fly on company planes if they pay the equivalent of first-class airfare on a regularly scheduled airliner. That fee is but a fraction of the actual cost to fly a corporate jet. And even that does not begin to cover the air-traffic-control and other services provided by the Federal Government.

Not all the Federal Government's corporate-welfare programs started out as welfare. Some began as foreign aid and turned into long-term annuities for corporate beneficiaries. Typical is Bechtel Group Inc. (1997 revenues: $11.3 billion), the global construction and engineering giant owned by the Bechtel family. So far in the 1990s, Bechtel has received more than $2 billion in corporate welfare in the form of government insurance, loans and grants, in addition to foreign-aid contracts, one of which is now nearly 10 years old.

Contracts for what?

To assess the feasibility of using landfill gases to generate power in Brazil; to develop an electric-vehicle demonstration program for India; to improve energy efficiency in Egypt, according to a company brochure, by "encouraging Cairo's 2,500 bakeries to switch from filthy fuel oil to cleaner, more efficient natural gas." Nice, but should American taxpayers be paying for it?

Sometimes in its zeal to dole out corporate welfare, the Federal Government finds itself working at cross-purposes. In 1997 a government agency issued a $29 million insurance policy to protect a new garment-manufacturing plant built in Turkey by Levi Strauss, the world's largest apparel manufacturer. Meanwhile the U.S. Department of Labor was approving training grants and extended unemployment benefits for 6,400 workers whose jobs had been eliminated at 11 Levi's plants in this country--on the grounds that the layoffs were attributable to cheaper imports.

LIFE OFFSHORE
Postcards from Tax-Free Havens

Programs such as foreign sales corporations are a product of Congress's attempts to legislate economic behavior--attempts that generally fail, to the detriment of the Treasury. In 1971 legislators became alarmed at the growing trade deficit--imports that exceeded exports--and the threat to American jobs. So Congress came up with a program, the Domestic International Sales Corporation, that deferred corporate taxes on export income. The idea was to encourage companies to keep jobs here.

It didn't work: the new law had no impact on the nation's trade deficit or manufacturing employment. While collecting billions of dollars in subsidies, corporate America continued to move manufacturing abroad. The merchandise trade deficit spiraled from $2 billion in 1971 to $67 billion by 1984.

When other countries complained that the program was an export subsidy--which it was--in violation of international trade agreements, Congress ditched it and set up FSCs. Our trading partners were happy; our corporations were happier, because the lawmakers forgave all the deferred taxes corporations had run up under the old program--a figure that then amounted to $13 billion.

The new law required FSCs to be established "in any jurisdiction outside of the U.S. customs territory" and to maintain an office and hold a board-of-directors meeting once a year in the country where they were incorporated. Tourist paradises such as the U.S. Virgin Islands now began to think about bustling office buildings and banks to handle the transplants. The islands' Lieutenant Governor at the time, Julio Brady, told a Senate committee that FSCs would be "real businesses" that would employ "real people. We are not talking about dummy or paper corporations."

But that's exactly what we're talking about. At last count, some 3,600 U.S. corporations had established foreign sales subsidiaries on the islands. That's one company for every 28 residents. You'd never know it. There are no FSC office towers. Nor are there FSC listings in the telephone book. The only clue to their existence is found in government offices, where bulging files attest to the paperwork they generate.

How is it possible to have 3,600 corporations and no visible presence? Easy. All the real work is still performed back in the U.S. The companies merely hire a local firm to maintain their records, open a bank account, conduct that annual board meeting and provide an offshore postal address. "FSCs are transparent companies," says a longtime agent on St. Thomas. "They don't really exist." To comply with the law, companies send their already processed sales invoices, brochures and other export literature in boxes to St. Thomas for mailing. Perhaps 50 islanders, mostly low-salaried clerical help, work in the FSC field.

For companies, there's yet another advantage to an FSC. As mandated by Congress, directors or their agents must attend one meeting a year in the vicinity of their FSC--a perfect excuse for a vacation in the Caribbean. Indeed, an FSC brochure put out by the Virgin Islands government extols the deep-sea fishing, the snorkeling, the reefs, the beaches, the 80° weather. Its cover reads: U.S. EXPORTERS: TAKE A TAX BREAK IN PARADISE. Catherine Sittig, the FSC manager, said that when she asked one executive why he had located his FSC in Bermuda, he replied, "Because I play golf."

The company Sittig oversees on St. Thomas, Export Assist Virgin Islands, is one of the islands' largest FSC managers. It employs seven people. Joseph G. Englert, president of its parent, Export Assist, Inc., San Francisco, disputes the notion that FSC management companies are just paper-shuffling operations. "We help [clients] with sales," he says. "We help them with transportation. We do what they call those economic processes, and we do a fair amount, [as] documented by real money being spent in our offices... So things really are going on."

Would large corporations export without the tax break? Well, yes. "Boeing's not going to stop the sale of a 747 just because there's no FSC," Englert opines. "Exports would go on just like they have throughout history."

Nevertheless, U.S. corporations have staunchly defended FSCs, saying they encourage exports and make American companies more competitive with foreign producers. Jeremy Preiss, chief international trade counsel for United Technologies Corp., testified before Congress last July that FSCs are "necessary to help level the playing field on which U.S. and foreign exporters compete." Further, say advocates of subsidizing exports, the U.S. is merely doing what other nations do through a range of helpful export measures. True enough. But European companies traditionally shoulder higher taxes than American companies and help sustain elaborate social-welfare systems of the sort the U.S. has never seen. Some of them even operate under mandated employment levels. No American company puts up with that.

Furthermore, since the U.S. is a member of the World Trade Organization, it is obligated to resolve any subsidy issue before that body. That's exactly what the European Union attempted to do last November, when it filed a complaint with the WTO charging that FSCs are export subsidies and thus prohibited by world trading rules. The WTO has since appointed a dispute panel to hear the charge and make a recommendation.

Meanwhile, a select few continue to reap the benefits of FSCs. Only about two-tenths of 1% of corporations that file tax returns have an FSC. Of those that do, fewer than 50 big exporters enjoy most of the tax benefits. Among them: AlliedSignal, Boeing, Caterpillar and Motorola, which together have escaped payment of more than $600 million in federal income tax over the past three years, thanks to their FSCs.

A relative newcomer to the FSC gambit is Microsoft, which helped lobby for a 59-word clause in the Taxpayer Relief Act of 1997 that sweetened the tax break for software makers. The result will cost taxpayers an extra $1.7 billion over the next 10 years. That's ostensibly meant to encourage Microsoft and others to export, but Microsoft is already an aggressive exporter. So the tax break is in effect a bonus to encourage Microsoft to do something it already does.

Microsoft wanted--and got--what record and movie companies already had: the right to ship master tapes or films overseas, make copies there and funnel the resulting income back through an FSC to generate a tax subsidy. The IRS allows the deduction, even though the manufacturing actually takes place abroad. Software lobbyists sold the change as one that would encourage the creation of high-wage, high-skilled U.S. jobs. It won't, although the company's workers in

Ireland, who make CDs and floppy diskettes for sale in Europe, surely are grateful.

And the trade deficit, the object of these legislative exercises? The nation has run deficits in all but one of the 26 years since the tax breaks on export income were enacted in 1971. Total deficits for those years: $2.3 trillion.

THE EXIMBANK
Santa Claus Lives

The year is 1934. The U.S. remains mired in the Great Depression. Unemployment seems stuck at close to 22%, and crop yields drop a third as farmers suffer the worst drought in 75 years. In one of many programs intended to revive the economy, the Roosevelt Administration establishes the Export-Import Bank of the United States. Its purpose: to create jobs by stimulating the sale of goods abroad. As George N. Peek, the bank's first president, explained in February 1934, "This is just one more move on the part of the President in his program to break the back of the Depression." Peek then sounded this warning: "[The Eximbank] has not been created for the purpose of acting as Santa Claus."

The Depression ended, the war began, the war ended, more recessions and wars came and went, and some six decades later, the Eximbank lives on, Santa Claus incarnate: an entrenched corporate-welfare program for the country's largest multinational corporations.

In the world of corporate welfare, the Eximbank is among the most exclusive of the giveaway clubs. A TIME analysis of Eximbank loans, grants and long-term guarantees in the 1990s shows that just 10 companies account for half of the $51 billion in financial deals identified in the bank's annual reports. They're mostly familiar names: ABB Asea Brown Boveri Ltd., AT&T, Bechtel, Boeing, Caterpillar, Foster Wheeler, General Electric, Hughes Aircraft (now part of Raytheon), McDonnell Douglas (now part of Boeing) and Westinghouse. Boeing, the nation's leading exporter, was the beneficiary of one-fifth of the bank's transactions. In all, the bank subsidized $11 billion worth of the Seattle aircraft company's sales to some 30 countries, which explains why Washington insiders call it the Bank of Boeing.

Eximbank subsidies consist of loans, guarantees or insurance at rates below those of traditional commercial sources. But bank officials reject the suggestion that they are running a welfare operation. They say every taxpayer dollar invested in Eximbank activities generates about $20 of U.S. exports.

Federal officials justify corporate welfare in much the same way their counterparts in state and local governments do. They are, they say, creating jobs. President Bill Clinton put it this way in May 1993: "Every time we sell $1 billion of American products and services overseas, we support 20,000 jobs." The following month, Kenneth Brody, president and chairman of the Eximbank, said, "The President's highest foreign priority is probably aid to Russia, [and his] highest priority domestically probably is jobs. When Exim is involved in Russia, we solve both problems. We provide them with money; they buy our products; they create jobs."

That was five years ago. Today, of course, Russia is on the verge of collapse. As for those jobs? In 1997 a total of 18.7 million Americans were employed in manufacturing jobs, down from 19.3 million in 1988. Overall, manufacturing's percentage of the work force fell from 18% to 15%.

OPIC
Daddy's Car Loans

How would you like to get the Federal Government to invest with you in a hot new business in the global market? Say a company that manufactures cotton and coffee in Argentina? Or a company that manufactures vans for the local jitney service in South Africa? Or a soft-drink company in Russia? For every buck you put up, the government, in the form of something called the Overseas Private Investment Corporation (OPIC), puts up two bucks. Best of all, if the deal goes sour because of a crumbling economy, currency devaluation or some other unforeseen event, you won't have to pay back the government's share.

Sound too good to be true? It is. Unless you have $1 million or more to put in the pot. That's most often the minimum investment required for one of these deals. As a result, investors fall into three broad groups: wealthy individuals, institutions such as pension funds, and large corporations like GE and Citicorp.

Thus far in the 1990s, the Overseas Private Investment Corporation has established 26 funds, which have invested $3.2 billion in businesses in Europe, Asia and Latin America. The U.S. Agency for International Development (AID) has established 11 other funds with 1.4 billion taxpayer dollars. President Clinton is OPIC's best friend. During his tenure, he has increased funds earmarked for OPIC ventures from less than $100 million to $3.2 billion.

In the case of AID's so-called enterprise funds, the investment dollars are supplied directly by you, the taxpayer. In the case of OPIC, government-guaranteed notes are sold on the open market and the proceeds are put into a fund in which private investors have committed some of their money. A typical $150 million fund would consist of $100 million in OPIC-guaranteed notes and $50 million in private capital. Mark E. Van de Water, deputy vice president in OPIC's investment-development department, explains the process:

"It's not unlike when you were younger and you wanted to buy a car and your dad signed the bank note. He guaranteed that you would pay it back. Well, we operate an awful lot like that."

If the investments go bad, you, the taxpayer--Dad--will have to repay the note.

Who gets to sponsor or manage a government-backed or -bankrolled investment fund? People who have the proper political ties or who are major campaign contributors or both. Like the billionaire Ziff brothers, whose fortune came largely from the 1994 sale of the family publishing business built by their father. Since 1996, Ziff Bros. Investments has overseen a $150 million OPIC-guaranteed fund, the South Asia Capital Fund, whose purpose is to make equity investments in India, Indonesia, Laos, Bangladesh, Sri Lanka, Thailand and the Philippines.

Brother Dirk Ziff, a musician who played guitar in Carly Simon's band and is active in the fund, also happened to be one of the largest--if not the largest--single contributors to the Democratic Party and President Clinton's re-election campaign in 1996. Ziff, one of those invited to sleep over in the White House, gave $410,000 to the Democrats.

To get a little extra bang for the buck, AID and OPIC have on occasion invested in the same entrepreneurial venture, which amounts to double jeopardy for the taxpayer. Such was the case when TPC Foods of Seattle announced plans in 1993 to build a chain of American-style supermarkets on Russia's eastern coast, starting with its first store in the port city of Vladivostok. In its 1993 annual report, OPIC predicted that the stores would generate "$23 million in U.S. exports." OPIC put up a $500,000 insurance policy; AID invested $9 million.

How are American supermarkets faring in Russia? They aren't. The Vladivostok store, designed to serve 150,000 retail customers a week, with two dozen check-out counters and parking for 500 cars, was built, complete with refrigeration and meat-processing equipment and even a bakery. It never opened. As for TPC Foods, it went out of business.

Beyond the investment funds, OPIC finances American business deals overseas through loans and loan guarantees, and it insures American investments abroad against expropriation and other political risks. As is the case with the Eximbank, OPIC's welfare beneficiaries are household names. And they are few. A TIME analysis of OPIC annual reports for the 1990s shows that just four companies and a collection of funds account for one-third of the agency's business. The four: Citicorp; Chase Manhattan; First National Bank of Boston; and Enron Corp, the Houston energy company.

Indeed, if Exim is considered the Bank of Boeing, then OPIC is the private domain of Citigroup Inc., parent of Citicorp and Travelers Group. Fully 14% of all the insurance OPIC supplied to all companies went to Citicorp and its various affiliates--$3.6 billion worth.

OPIC officials, like those at the Eximbank, dismiss the suggestion that they are engaged in corporate welfare. They say that the organization is self-supporting, that it actually turns a profit based on the fees it charges and that it is helping to "mobilize America's private-sector investment" in places that advance U.S. policy and development objectives.

Be that as it may, is it more logical for the U.S. government to subsidize the sale of business insurance to a corporation than it would be for the government to subsidize your auto insurance?

ALLIEDSIGNAL
Hooked on Welfare

"Welfare was originally intended to provide temporary assistance to people who were victims of economic hardship due to circumstances beyond their control. Today there are hundreds of thousands of able-bodied people who stay on welfare for years at a time."

When he said those words in 1995, AlliedSignal CEO Lawrence Bossidy was calling for welfare reform for individuals, but he could have been talking about his very own company. Just as the cycle of poverty ensured that welfare families lived on the dole one generation after another, corporations have preserved their entitlements too, despite reform efforts.

Look at Bossidy's company, which makes aerospace and automotive products and is headquartered in Morristown, N.J. Over the past five years, a time when AlliedSignal's financial numbers have been moving up smartly--profits increased 185%, to $1.2 billion, and dividends rose 82%, to $295 million--the company has collected more than $150 million in corporate welfare from federal and state governments. There have been federal export subsidies; Eximbank projects in China, India and Venezuela; and research contracts with the Department of Energy. Louisiana has excused the company from paying nearly $2 million annually in real estate taxes. Kansas came up with a package of incentives valued between $11 million and $14 million to persuade Allied to erect a headquarters building for one of its subsidiaries in Olathe. The Indiana city of Franklin lopped 78% off the company's personal-property tax bill over five years.

AlliedSignal, like many FORTUNE 500 companies in the '90s, has added to the unemployment rolls at the same time it has been collecting welfare. Over the past three years, the company has shed thousands of jobs as it acquired other companies. Right now, Allied is making a run at AMP, a Harrisburg, Pa., producer of connectors for computers. If Allied wins, more pink slips are expected.

GENERAL ELECTRIC
Jack the Nimble Globetrotter

There is no starker example of the phenomenon of corporate welfare and vanishing jobs than General Electric Co. In 1986 GE, fresh from acquiring RCA, employed 288,000 workers in this country. By 1997 the number had fallen to 165,000. During the period that GE cut those 123,000 jobs in the U.S.--43% of its workforce--the company collected several billion dollars in corporate welfare.

This is not coincidence. GE is arguably America's best-run large enterprise, and under its charismatic chairman, Jack Welch, it has moved aggressively to position itself as a truly global corporation while pursuing every available strategy to boost profitability and shareholder value. While few investors would argue with GE's corporate strategy or its success, it is fair to question the government's continued use of taxes from the rest of us to make GE's hefty profits even greater.

Part of GE's corporate welfare came from its FSC, which has allowed the company to skip payment of more than half a billion dollars in taxes since 1986. The rest comes from a variety of business tax credits, deductions and other incentives. During those same years, GE received contracts potentially worth half a billion dollars from the Department of Energy to conduct research in such areas as turbine systems for utilities--a core business of GE for decades. The Eximbank arranged more than $3 billion in financing or loan guarantees on some 40 GE projects in 20 countries. OPIC insured four GE projects worth $213 million.

The global strategy has paid off brilliantly for the company. GE's shareholder value spiraled 515%, from $39 billion in 1986 to $240 billion in 1997. During the same period, profits shot up 228%, from $2.5 billion to $8.2 billion, while the company's income tax payments to the U.S. Treasury rose a modest 27%, from $1.1 billion to $1.4 billion. In the process, GE pared the U.S. portion of its income tax bill from 84% to 52%. At the same time, GE's income tax payments to foreign governments shot up 550%, from $200 million to $1.3 billion.

In the course of those 11 years, GE's global tax rate dropped from 34% to 24%. The more money GE made, the lower its tax rate. It does not work that way for most of us. Had the income of a family at the U.S. median increased 228% over that period, its taxes would have increased about the same percentage; GE's taxes increased 32%.

ARCHER DANIELS MIDLAND
A Corny Story, but No One Is Laughing

The king of corporate welfare may be Archer Daniels Midland Co. The global agricultural-commodities dealer has artfully preserved one of the more blatant welfare programs--a subsidy for ethanol that has already cost taxpayers more than $5 billion in the 1990s. Some $3 billion of that has gone to ADM.

In return, ADM's famously connected chairman, Dwayne Andreas, has passed a lot of money to government types, both willingly and unwillingly. On the voluntary side, ADM contributed $2.8 million to both Democrats and Republicans in the 1990s. On the involuntary side, it was compelled to pay a $100 million fine to the Justice Department in 1996 after pleading guilty to rigging the market for the animal-food additive lysine.

Ethanol is a corn-based fuel additive subsidized by taxpayers (and lobbied for by ADM). It is added to gasoline to reduce pollution and oil imports--although it's questionable whether it really does either. (Even if every ear of corn grown on American farms were turned into ethanol, the U.S. would still have to rely on foreign sources for more than 30% of its oil. But then, of course, there would be no corn to eat or use for feed.) Further, ethanol costs more to produce than it can be sold for on the market, thereby necessitating a 5.4[cent]-per-gal. tax credit (also lobbied for by ADM).

Ethanol, to be sure, has a vocal constituency beyond ADM--most notably Midwestern farmers who grow corn. In Washington, President Clinton, Vice President Gore and Bob Dole have all lined up to protect the subsidy. Iowa Senator Tom Harkin, a Democrat, summed up the position in March 1997, when critics tried to kill the ethanol subsidy: "These incentives encourage 'homegrown' energy sources, reduce reliance on foreign oil and promote a cleaner environment."

The ethanol tax break and other corporate-welfare programs add up to $400 million a year in handouts to Archer Daniels Midland, which had sales of $13.9 billion in 1997.

WATER POWER
Thirsty for Subsidies

Because the corporate-welfare dollar amounts are so large, it can be difficult to comprehend the magnitude of the subsidies. But this may help put the issue in perspective: How would you like to pay as little as 1[cent] a day for water?

You can, if you're on corporate welfare. A penny is what homeowners would pay if they could buy water at the rate the government sells it to many Western farmers. In fact, federally subsidized water may well be the oldest corporate-welfare program in America--one that preceded government welfare programs for the poor by decades. As with the Eximbank, this program was established for a different purpose than it serves today--to lend a hand to a class of farmers much more strapped than the ones who now profit from it.

The Reclamation Act of 1902 was designed to open up Western land with federal water for small farmers and their families. The intent, as Theodore Roosevelt's first reclamation chief, F.H. Newell, made clear in 1905, was to help the little guy: "It is not to irrigate the lands which now belong to large corporations...but [to put] land...into the hands of the small owner, whereby the man with a family can get enough land to support that family."

Today many of the farms soaking up the subsidy are owned by the very entities Newell sought to exclude--corporations. These farms are the size of cities and are run not from farmhouses but from skyscrapers. Some are owned by foreign interests, which are more likely to reside in Munich or Vienna than in rural America.

Cheap water courtesy of the Federal Government costs taxpayers well in excess of $1 billion a year. The low-cost water comes not from a single subsidy but from an accumulation of subsidies. Over the years, taxpayers have funded the vast infrastructure that provides the water--dams, reservoirs, canals, locks, pumping stations, hydroelectric turbines, such as Washington State's massive Columbia Basin Project. The Federal Government picks up the tab, then bills farmers a sum equal to only a small portion of the actual cost of construction. Then it gives them 40 to 50 years to pay off their share--interest free. Estimates of the total irrigation subsidy since 1902 range from $18 billion to more than $75 billion, with most of that coming in the past decade or so.

As the federal water surges toward their fields, the farmers generate hydroelectric power with it, which they then sell at market rates and pocket the profit. In Washington State, farmers in the Columbia Basin have built seven such plants, which now generate about 500 million kilowatt-hours of electricity annually, enough to supply power to 50,000 American homes for a year. The electricity is sold to the cities of Seattle and Tacoma and so far has produced nearly $10 million in income since the first plant went on line in 1982.

By all rights, some of this money belongs to the Federal Government, which supplies the water that produces the hydro power. To Phil Doe, a former Reclamation Bureau official, the arrangement symbolizes much of what has gone wrong with federal policy on water rights. "This is an absurdity on top of an absurdity," says Doe. "First they get water at a bargain, then they use it to generate power, which they sell at market rates. That money belongs to us, the taxpayers."

The subsidy points up one of the hidden consequences of all corporate welfare--it favors one group of businessmen over another. In this case, the government gives Western farmers an advantage over Eastern farmers, who pay for their own wells, pumps and lakes. Says Dave Sheppard Jr., a fourth-generation farmer who grows tomatoes, green peppers, iceberg lettuce and cucumbers on 1,200 acres in Cumberland County, N.J.: "We don't get any subsidies. It's all on us."

The irrigation lobby easily turned back the most serious attack on the subsidy--the Reclamation Reform Act of 1982. When the act was passed, Congress pledged that large farmers, once and for all, would have to pay the full cost of water. It limited to 960 acres the size of farms that could get low-cost federal water. Larger farms would have to pay up. "We have closed the door on the unwarranted subsidies," said Representative George Miller, a California Democrat who championed the reform bill.

Then a curious thing happened. The largest farms began to reorganize. They divided their land into parcels of 960 acres or less--placing each in the name of a relative, employee or corporation--then turned over operation of the usually contiguous tracts to one farm-management company, often controlled by the same businesses, relatives or employees who owned the individual parcels.

The large farms still operated as a single unit, grew the same crops, employed the same workers, borrowed from the same banks. Nothing had changed. Except in Bureau of Reclamation files, where large farms now appeared as a collection of small farms, each entitled to low-cost water.

Typical of those that reorganized was Boston Ranch Co., a subsidiary of one of the nation's largest cotton growers, the J. G. Boswell Co. The company farms about 150,000 acres in California--the equal of five cities the size of San Francisco.

After passage of the 1982 reform act, Boswell transferred ownership of 23,238 acres of its Boston Ranch to an entity called the Westhaven Trust, which had been organized for 326 salaried Boswell employees. The ranch was subdivided into tracts ranging from 21 to 547 acres and placed in trust for the employees.

As a General Accounting Office audit in 1990 put it: "Each landholding is within the act's 960-acre limit, and each individually qualifies for federally subsidized water under current reclamation law. However, for all practical purposes, the landholdings continue to be operated collectively as one large farming operation."

By reorganizing, Boswell's Boston Ranch saved at least $2 million in water costs in 1990, according to the GAO. Which means more than $10 million in subsidies has flowed to the Boswell entity since 1990--most of it in the form of water for which central California farmers are charged $14 an acre-foot by the Bureau of Reclamation. The agency says the full cost of that water is more than double that amount--$39 per acre-foot. The Boswell company declined to comment.

Repeatedly since 1982, the Bureau of Reclamation has proposed curtailing the subsidy to big growers, but each time has backed away after powerful agribusiness interests mobilized to keep their benefits. Most recently, the Clinton Administration vowed in 1995 to enforce the acreage limitation. "Our hope is to stop the 1% of the farmers who are scamming the system," said Dan Beard, commissioner of reclamation. After a long fight, new regulations were issued in 1996. They left the current system intact.

from TIME Magazine, 1998-Nov-16 (V152N20), from http://cgi.pathfinder.com/time/magazine/1998/dom/981116/special_report.corporat2a.html:

SEARLE & CO.: A CASE STUDY
The Mysterious Midnight Favor

Sometimes members of Congress debate long and loud about specific programs that represent corporate welfare. Other times they resort to arcane paragraphs tucked into unrelated legislation during late-night sessions, hoping no one will notice the giveaway.

Even hotly debated legislation--and even legislation meant to cut costs--can end up containing handsome gifts for targeted corporations. That's what happened with the Balanced Budget Down Payment Act of 1996, a long and bitterly debated piece of legislation. So long and bitter that the country went without a budget for seven months and endured two partial Federal Government shutdowns.

In the end Congress carved $22 billion out of the budget, prompting Representative John Kasich, the Ohio Republican who chairs the House Budget Committee, to declare that the new law made "the most significant reductions in Washington spending since World War II."

Well, maybe. But buried in the thousands of words that slashed government spending on everything from legal aid to the poor to helping the needy pay their home-heating bills was this intriguing sentence:

"In General: Any owner on the date of enactment of this Act of the right to market a nonsteroidal anti-inflammatory drug that (1) contains a previously patented active agent; (2) has been reviewed by the Federal Food and Drug Administration for a period of more than 120 months as a new drug application; and (3) was approved as safe and effective by the Federal Food and Drug Administration on October 29, 1992, shall be entitled, for the two-year period beginning on October 29, 1997, to exclude others from making, using, offering for sale, selling, or importing into the United States such active agent, in accordance with section 154(a)(1) of Title 35, United States Code... "

Those 112 words obviously had nothing to do with cutting funds to departments and programs of the U.S. government. On the contrary, they would end up costing consumers many tens of millions of dollars--and fattening up G.D. Searle & Co. by the same amount.

The words, planted in the legislation by friendly members of Congress, extended for two years Searle's patent protection on Daypro, an anti-inflammatory drug that is the second best-selling drug for arthritis in the country. They also meant that for two more years, no cheaper generic versions of the drug could be sold.

Searle is a subsidiary of Monsanto Co., a global chemical and pharmaceutical giant with annual revenues of $7.5 billion. How important was Daypro to Searle and Monsanto? The company sells $300 million worth of the stuff a year.

Most lawmakers were unaware of the handout. It was not in the original bill passed by the House nor in the one passed by the Senate. As often happens with special interests, the stealth provision was slipped into the legislation during a conference session, when the two houses were ironing out differences between their respective bills.

No record exists identifying the lawmaker who inserted it. To this day, no one claims credit. But it is worth noting that in December 1995, four months before the budget bill was passed, then Senator Paul Simon, Democrat from Chicago--the home of G.D. Searle--introduced on the floor of the Senate a bill to specifically extend Daypro's patent protection. The bill was co-sponsored by Senator Carol Moseley-Braun, also a Chicago Democrat, and Senators John Ashcroft and Christopher Bond, both Republicans from Missouri, the home of Searle's parent, Monsanto. That bill went nowhere.

Not all drug companies are as lucky as Searle. American Home Products later sought to have the patent extended on one of its arthritis drugs, Lodine. Following Searle's lead, American Home Products arranged for a friendly member of Congress to drop the required paragraphs into an unrelated piece of legislation: the Health Insurance Portability and Accountability Act of 1996.

Once again, the wording was not in either the House bill or the Senate bill. Rather, it was slipped into the conference-committee report in the middle of the night. And again no one seemed to notice.

No one, that is, until Senator Edward Kennedy, Massachusetts Democrat, blew the whistle two days later. Kennedy denounced this legislative gimmick and noted that Lodine brought in $275 million a year for American Home Products. Paul Wellstone, the Democratic Senator from Minnesota, chimed in, assailing "the mysterious manner in which [the] giveaway [was added to the legislation late at night] at the expense of patients and senior citizens."

The furor was so great that Trent Lott, Mississippi Republican, Senate majority leader and the bill's original sponsor, ordered the offending paragraphs removed.

As it turned out, however, American Home Products almost prevailed after all. Last June the company announced that it would acquire Monsanto and its G.D. Searle unit for $34.4 billion in stock. The merger, however, soon unraveled and by last month both companies had decided that it was "not in the best interests" of either.

from TIME Magazine, 1998-Nov-16 (V152N20), from
http://cgi.pathfinder.com/time/magazine/1998/dom/981116/special_report.corporat3a.html:

HOW THEY WORK

FOREIGN SALES CORPORATIONS

WHY The initial rationale for FSCs was to encourage exports and thereby reduce the U.S. trade deficit and save jobs

WHERE Must be established in U.S. possessions or one of 32 foreign countries in order to qualify for a 15% tax break on export income WHO Any U.S. firm can establish an FSC, but the big dollar savings go to the larger companies

YOUR COST $1.7 Billion per year

OLD LAWS, NEW CONSEQUENCES

THE BANK THAT NEVER CLOSES

In 1934 the country was in terrible shape. President Roosevelt launched an agency to create jobs by offering loans, grants and long-term guarantees to exporters, in hopes of getting the country out of the darkest years of the Depression. Those days, of course, are long gone, but the Export-Import Bank lives on and guarantees billions in loans to aid huge corporations.

The BOEING COMPANY of Seattle is the largest recipient of Eximbank guarantees. From 1990 through 1997, Boeing received $11 billion, most of it in the form of long-term guarantees to finance aircraft sales to countries worldwide. During that period, Boeing's single largest customer was China.

Other companies that benefit:

--Caterpillar
--Bechtel
--AT&T
--Foster Wheeler
--Westinghouse

YOUR COST $4.3 Billion
cumulative cost 1993-97

ON THE DOLE

ALLIEDSIGNAL

Bossidy has complained about the "hundreds of thousands of able-bodied people who stay on welfare for years at a time"--but his company is a major recipient of corporate welfare

A COMPANY THAT THRIVES...
Over the past five years, Allied's profits nearly tripled to $1.2 billion. For the entire period, the company earned more than $4 billion

...BUT IS STILL ON WELFARE
During that same period of soaring profits, Allied collected more than $150 million in state and federal corporate welfare

...FROM MULTIPLE SOURCES
Allied gets export subsidies, loans and guarantees overseas, breaks on real estate taxes, federal research contracts and incentives to build new offices.

OLD LAWS, NEW CONSEQUENCES

WATER, WATER EVERYWHERE

In 1902 Congress passed the Reclamation Act to build dams and irrigation canals to supply water to small farmers and their families. The intent of both Congress and President Theodore Roosevelt was to help out farmers cultivating 160 acres or less. Roosevelt's first reclamation chief declared the law was to help "a man with a family" and was not to aid corporations.

1998 Subsidized water now flows to scores of corporate farms in the American West. Water once earmarked for struggling family farmers goes to agribusinesses the size of entire cities. Big farmers buy the water at a fraction of its real cost.

Beneficiaries include:

--a 22,000-acre cotton ranch
--a Japanese drugmaker
--a multimillionaire potato farmer

YOUR COST $5 Billion
cumulative cost 1993-97

PROFITS UP, JOBS DOWN

GENERAL ELECTRIC
One of the world's best-run and most successful companies, GE has moved smartly to become a global powerhouse

BRINGING IN THE BUCKS...
Over the past 11 years, GE's profits rose 228%--from $2.5 billion in 1986 to $8.2 billion in 1997

...BUT STILL ON WELFARE
GE gets export subsidies, tax credits, loan guarantees, government-research contracts and federally provided insurance for overseas projects

...AND STILL CUTTING JOBS
In 11 years, GE has cut more than 120,000 jobs, reducing its work force nearly one-half

GREASING THE WHEELS

ARCHER DANIELS MIDLAND

The world's largest agricultural commodity firm deals in many products, including ethanol, a corn-based fuel. Subsidies to promote ethanol have cost taxpayers $5 billion this decade

A COMPANY THAT MAKES MONEY...
Over the past five years, ADM has gathered profits of $2.9 billion. Last year alone, ADM collected revenues of $13.9 billion worldwide

...BUT STILL RECEIVES WELFARE
ADM collected more than $3 billion in corporate welfare in the 1990s and now takes in $400 million a year--more than $1 million every day

...AND LOBBIES TO KEEP IT
In this decade alone, ADM has contributed nearly $3 million to Democrats and Republicans in Congress to preserve the ethanol subsidy

from TIME Magazine, 1998-Nov-23 (V152N21), by Donald L. Barlett and James B. Steele with reporting by Laura Karmatz and Aisha Labi, and research by Joan Levinstein, http://cgi.pathfinder.com/time/magazine/1998/dom/981123/special_report.corporat4a.html:

Paying A Price For Polluters

MANY OF AMERICA'S LARGEST COMPANIES FOUL THE ENVIRONMENT BUT CLEAN UP ON BILLIONS OF DOLLARS IN TAX BENEFITS

It was about 5 o'clock on Thursday afternoon in August 1996, when a dense gray cloud descended over Route 73, a two-lane road near Geismar, La., cutting visibility to zero and triggering a rear-end collision. As State Trooper Ross Johnson, a fresh-faced, 25-year-old Marine Corps veteran, drove toward the accident, he noted that every car headed his way had headlights on and windshield wipers flapping. When Johnson got out of his patrol car, he suddenly got hit by the heavy smell of ammonia. He ushered the drivers of the two cars out of the cloud and into a guard shack at an entrance to the Borden Chemicals and Plastics plant. "The fog was so dense I couldn't see the road," one driver told him. A plant safety officer had notified authorities about the chemical release, but had assured them "there was no off-site impact." By then, Johnson recalled, "there was a fog as far as the eye could [see]."

After Johnson left the scene, his "throat was really starting to clench, my eyes were starting to burn, and my skin was really starting to itch." Johnson later learned that the cloud was a witches' brew of toxic chemicals: ethylene dichloride, vinyl-chloride monomer and hydrogen chloride.

It had been just another day at the Borden Chemicals and Plastics plant. A month later, half a dozen similarly hazardous chemicals were released but remained on plant grounds. The following year, in July 1997, vinyl-chloride monomer and ammonia escaped from the plant and forced the closing of Route 73. In July 1998, a cloud of hydrochloric acid spewed out, shutting down roads in the area for about 20 minutes.

Back in 1994, at the request of the U.S. Environmental Protection Agency (EPA), the Justice Department filed a lawsuit against Borden Chemicals, accusing the company of a series of environmental-law violations. Among the charges: the company stored hazardous waste, sludges and solid wastes illegally; failed to install containment systems; burned hazardous waste without a permit; neglected to report the release of hazardous chemicals into the air; contaminated groundwater beneath the plant site (thereby threatening an aquifer that provides drinking water for residents of Louisiana and Texas); and shipped toxic waste laced with mercury to South Africa without notifying the EPA, as required by law. Last March, on the third day of what was expected to be a three-week trial, the company signed a consent agreement to settle the case. Without admitting any wrongdoing, Borden Chemicals agreed to pay a fine of $3.6 million--the largest in Louisiana history. The company also consented to spend $3 million to clean up groundwater contamination and stop injecting waste into underground storage wells, and to donate $400,000 for equipment for local emergency response units.

Don't weep for Borden Chemicals. It was able to pay the fine with just a couple of years' savings from abated taxes. For over the past decade, while the plant has been fouling the land, water and air in Louisiana, the state has excused the company from paying $15 million in property taxes as part of just one of its corporate-welfare programs. A Borden spokesman said even with the exemption, the tax the company pays in Louisiana is "about average" for Southern states. Without the exemption, he says, Louisiana would no longer be "competitive as far as trying to attract and retain" jobs.

And who are the real beneficiaries of this welfare? One is the Wall Street buyout firm of Kohlberg Kravis Roberts & Co., one of whose affiliates "manages and controls the activities of the company," according to filings with the U.S. Securities and Exchange Commission.

Borden Chemicals, which years ago was part of Borden Inc., the milk-and-dairy-products company, is typical of scores of companies in Louisiana that receive tax abatements at the same time they contribute to the state's polluted environment. That pollution, in Louisiana and across the country, represents corporate welfare's greatest hidden cost. Chemicals, mining wastes and a broad range of other hazardous materials have fouled water, land and air across America. Billions have already been spent undoing environmental damage. Many more billions will be spent in coming years. Industry itself is footing part of the bill. But the largest chunk will come from taxpayers--a massive corporate-welfare program.

The Federal Government, for example, has spent $130 million so far to clean up the Alamosa River in Colorado, contaminated with cyanide and heavy metals from a gold mine abandoned in 1992. The final tab is expected to reach at least $160 million. The government will eventually spend more than $100 million to clean up a site in Wayne, N.J., contaminated with radioactive waste. The company has agreed to chip in $32 million. The government estimates it will cost as much as $200 million to scrub up a zinc-smelter site in Palmerton, Pa. The tab for cleaning up radioactive waste, at a site in Weldon Spring, Mo., is put at $800 million.

As is so often the case with environmental pollution, practices once deemed safe turn out years later to be hazardous. So it was with the PCBs used by General Electric Co. and other manufacturers of transformers. Now cost estimates for cleaning up GE's pcb contamination in the Hudson River alone range as high as $3 billion.

Add to these cleanup bills yet another cost from pollution: the billions spent on health care to treat conditions ranging from black-lung disease to asbestosis. These costs are yet to be counted; it often takes years, even decades, to document links between chemicals and other products and deadly or debilitating diseases.

A Little Start-Up Called Exxon

To better understand the link between corporate welfare and pollution, let's take a closer look at Louisiana, a state that hands out tax breaks to companies that have been repeatedly fined or cited for discharging hazardous chemicals or for generating large amounts of toxic waste. Louisiana has been canceling taxes owed by industry ever since the Great Depression. But, as elsewhere, the exemptions have soared over the past decade.

Thus far in the 1990s, a TIME analysis shows, the state has wiped off the books $3.1 billion in property taxes alone. That's 14 times the amount the state excused in the 1960s and doesn't include all the other types of tax breaks granted to corporations. That makes Louisiana No. 1 in terms of subsidies per capita. Some of the big beneficiaries include Lucent Technologies, Uniroyal Chemical, Willamette Industries, PPG Industries and Georgia Gulf Corp. Paul Templet, a professor of environmental studies at Louisiana State University, has measured business subsidies across the country. His sobering conclusion: "The states that offer the least subsidies are doing the best from per capita income, [low] poverty, you name it ... as the subsidies rise, the states essentially get poorer." What's more, Templet found, "as these subsidies rise, the income disparity ... between the rich and the poor rises."

Plenty of states pass out tax breaks, of course, even to polluters whose mess taxpayers must later clean up. But Louisiana's incentive program has an odd twist: the tax abatements are intended to help start-up businesses. The purpose of the industrial-tax-exemption program, in the state's own words, is to offer "to industry certain tax benefits at the most critical stage of any business endeavor--the beginning."

So what are some of these "beginning" businesses? Over the past 10 years the state canceled $213 million in industrial property taxes owed by Exxon Corp., a company that traces its origins back 116 years. It eliminated $140 million in taxes owed by Shell Oil Co. affiliates, a business whose roots in the U.S. go back 86 years. It erased $103 million in taxes owed by International Paper Co., which opened its doors 100 years ago. And it voided $96 million in taxes owed by Dow Chemical Co., which was established 101 years ago.

While government officials across the country publicly embrace tax-abatement programs like Louisiana's, the employees involved in the actual administration of them are often quietly critical. In Louisiana, as in other states, TIME encountered those outraged by the escalating handouts but fearful of losing their jobs and powerless to stop the process. A Baton Rouge state official, who agreed to talk anonymously, said some companies today practice a form of "extortion" in Louisiana--they demand tax breaks yet give back very little in return. At one time, he said, companies might actually create new jobs in exchange for the abatements. "Today the corporations may add one or two new jobs for every million [dollars in abatements they receive]," he said. "That's not fair." Even when a company does create "100 new jobs, [it] closes a plant somewhere else, and 150 people lose their jobs," he added.

But he is quick to say that Louisiana on its own cannot stop the handouts if other states don't join in. "We'd be killed."

TODAY'S LESSON: RATS DO BITE

When government distributes handouts to select companies, someone else pays, either in higher taxes or in reduced services. Among the nation's most innocent victims: children who attend public schools. In some Louisiana parishes (counties), 20% or more of the industrial property taxes goes to education. So every tax break granted to a company translates into less money for schools. Consider the consequences of that policy for the 56,000 students in the East Baton Rouge Parish school system, the state's second largest after New Orleans. Everyday, many of them face some or all of these afflictions: rat bites; roofs with holes in them; buildings whose antiquated wiring will not permit more than a few computers to work at one time; walls so damaged by water leaks that paint will not adhere to the plaster; floors so rotted that children put their feet through them; long lines to use outmoded bathrooms; sewage backups in classrooms; asthma and respiratory illnesses as a result of mildew and fungus in ancient air ducts; falling ceiling tiles; condemned rooms; collapsing partitions; unusable playgrounds; broken stairs; carpets that smell from the repeated leaks and flooding.

Cindy Jones, an assistant principal, says, "It's astonishing... that people actually have to come to work and to learn in this kind of environment." Adds John McCann, principal of the 1,000-student Woodlawn High School, arguably the most dilapidated building in the district: "Teachers, they get run-down. It hurts their morale. They're tired of coming to school and getting wet when it rains." McCann means, of course, that teachers are tired of getting wet inside the school--not outside.

Sometimes the flooding occurs at inopportune moments, like the time students sat down to take a state-required test that determines whether they will graduate. "We went to classrooms vacuuming out with those big wet vacs," McCann recalled. "The kids were supposed to be trying to take an exam to see if they can get out of school. Well, we had to stop [the test]...and we had to move some kids out of [the] classrooms."

McCann's school was built long ago on a geological fault and is now cracking--literally. The auditorium, band room and choir room are off limits because they have been condemned.

None of this is to suggest that corporate welfare alone is responsible for the plight of the state's schools. While it certainly is one of the contributing factors, there are others. For example, at the same time the state passes out tax breaks wholesale, it does not contribute one cent to building construction or other capital needs of schools, as many other states do. All of which helps explain why Louisiana ranks 45th in the nation in spending on elementary and secondary education.

As if conditions inside Baton Rouge schools were not bad enough, students and teachers must also contend with pollution alerts. Listen to assistant superintendent Christine Arab describe life amid the petrochemical plants:

"Certain schools are in wind patterns from chemical plants, and they have as part of their safety drill what's called shelter-in-place, where all the windows in the buildings must be shut, the doors sealed in a special way. No one can go outside. They stay right there until it's cleared.

"Well, we had a barge overturn up on the north end of the river last year that was about a three- or four-day emergency, and we had kids sheltered in place for hours and hours and hours and had to wait for the wind to shift so we would be permitted to take the buses in and get out as many children as we could before the wind pattern changed again. Amazing. I thought to myself, I didn't know when I took this job that I would be issued a hard hat and a gas mask."

VERY BLACKENED REDFISH, ANYONE?

Each year the EPA compiles a catalog of the toxic chemicals discharged into the environment. Congress ordered the accounting after a deadly cloud of chemicals escaped from a Union Carbide plant in Bhopal, India, in 1984, killing thousands of people--and after the company released a smaller quantity of an equally toxic gas from its plant in Institute, W.Va., less than a year later.

Let's look at five companies in Louisiana that have earned spots on the EPA's list of the Top 50 companies measured in volume of chemical releases across the country. The five also happen to be beneficiaries of direct corporate welfare.

--Cytec Industries Inc. ranked No. 1 in the release of toxic chemicals in Louisiana during 1996. The company pumped 24.1 million lbs. of chemicals into wells and the air. The company also ranked No. 5 on the EPA's Top 50 list of companies that spew out the largest volume of toxic materials nationwide. Cytec, based in West Paterson, N.J., is a global chemical company with sales of $1.3 billion. And it has a friend in Louisiana, which has excused it from paying $19 million in local property taxes on machinery and equipment over the past decade. Records of the State Department of Economic Development show that the company created exactly 13 jobs during that period--meaning taxpayers shelled out $1.5 million for each additional person hired by Cytec.

--IMC-Agrico Co., at 12.8 million lbs., placed No. 3 on the EPA list of largest generators of toxic chemicals in Louisiana. Nationwide the company ranked No. 20. Louisiana has excused the company from paying $15 million in property taxes over the past decade. IMC-Agrico is a subsidiary of IMC Global Inc., a firm with sales of $3 billion in 1997.

--Rubicon Inc., a Geismar, La., chemical company, ranks No. 4 on the EPA's Louisiana chemical-release list--No. 34 nationwide--at 8.4 million lbs. Louisiana has exempted the company from payment of $9 million in property taxes over the past decade. Rubicon is a joint venture of Uniroyal Chemical Co., with 1997 sales of $1.2 billion, and Imperial Chemical Industries PLC of London, with sales of $16 billion. Uniroyal itself has received $20 million in tax abatements on its Louisiana plant.

--Monsanto Co., the global chemical and pharmaceutical company, holds fifth place on the Louisiana toxic-chemical-release chart at 7.7 million lbs. Nationally the company ranks 39th. Louisiana has excused Monsanto from payment of $45 million in property taxes over the past decade.

--Angus Chemical Co. placed No. 6 on the Louisiana chemical-release list at 6.3 million lbs., and No. 49 nationwide. Louisiana has excused Angus from payment of $12 million in property taxes over the past decade--peanuts compared with some. But Angus has a special distinction: in 1991 an explosion ripped through the Angus chemical plant in Sterlington, La., killing eight workers and injuring more than 120. Clouds of toxic gas filled the air, and shock waves damaged a nearby hospital, a school and homes.

In addition to saving $100 million in property taxes, the five companies--along with thousands of others--have profited from the failure of federal and local governments to impose more stringent controls on the release of lethal chemicals. Count it, at the very least, in the tens of millions of dollars.

MEET THE MAN WITH 41 BATHROOMS

This brings us to the company that has earned the top spot in the country on the EPA's toxic-chemical roster: Magnesium Corp. of America in Rowley, Utah. The company has been in first place for the past two years. In 1996 it pumped 65.3 million lbs. of chemicals into the air. That was up from 64.3 million lbs. the year before. On average, the Utah plant spews 123 lbs. of toxic chemicals into the air every minute, 24 hours a day.

Who owns this foul business?

A holding company called the Renco Group Inc., which, in turn, is owned by Ira Leon Rennert, until recently a relatively anonymous New York City investor. Renco, with offices in Rockefeller Center, is a conglomerate of sorts, the far-flung parts of which seem to share a common thread: they're out of compliance with pollution laws.

WCI Steel Inc., a Renco holding, has been battling the EPA in federal court for the past several years over alleged environmental violations at its Warren, Ohio, plant. In a series of civil lawsuits, the agency has charged that the company "has operated hazardous-waste-management units at the facility" without permit; that it has stored hazardous waste in ponds that did not meet "minimum technological requirements"; and that it has discharged zinc, copper, lead, cyanide and other pollutants above allowable limits into the Mahoning River. The government is requesting that fines that could run upwards of $20 million be imposed on Rennert's company.

WCI Steel also happens to be a recipient of some generous corporate welfare. Trumbull County, Ohio, records show that in 1997, the company was excused from paying $189,000 in real property taxes and $651,000 in personal property taxes. Projections show that the company, over the life of its agreement with local authorities, will save $19 million in real and personal property taxes. There are two ways to look at that: Rennert's company will get a pass on 75% of its $25 million tax bill, or its tax breaks nearly equal the fines the EPA is seeking.

Let's look at another Renco holding, the Doe Run Co., based in St. Louis, Mo. Doe Run operates the world's second largest lead smelter in Herculaneum, Mo., 30 miles south of St. Louis. A massive complex encompassing 170 acres on the banks of the Mississippi River, the Doe Run smelter operates seven days a week, 24 hours a day, and turns out 250,000 tons of refined lead a year for storage batteries and other products.

Like Rennert-affiliated operations in Ohio, the Herculaneum smelter fails to meet air-quality guidelines. In Securities and Exchange Commission filings, the company has acknowledged that "the area surrounding the Herculaneum smelter currently is out of compliance" with federal air-quality standards for lead. That's earned the Doe Run smelter the 37th spot on the EPA Top 50 list of companies that release the most toxic chemicals in America.

The ranking wouldn't surprise the townspeople who live in the shadow of the smelter and experienced its periodic discharges of blue-black smoke long before Rennert bought the plant--and still do today. Tom Reece, a city employee, recalls times when emissions engulfed the town during Friday-night high school football games. "The smoke was so bad you couldn't see the ball," he says. Another resident, Michelle Davis, remembers one such night within the past year when she was leaving city hall after a meeting. "It was like there was a fog out there," she says.

Townspeople speak of children and adults who are "leaded," the local term for those who have higher than normal levels of lead in their body. Lead poisoning has long been known to have serious health effects, especially in children, including decreased intelligence, slow growth, impaired hearing and brain damage.

Dale and Michelle Richardson used to live in a house next to the Doe Run smelter. When tests revealed that their young son and daughter had higher than normal levels of lead in their body, Doe Run dispatched workers to decontaminate the house. "They sent people over to vacuum the house," recalls Dale Richardson. "They were saying, 'Don't let [the children] go outside.' Now they knew that wasn't going to happen. You can't keep children from going outside."

Doe Run eventually bought the property, demolished the house and carted off the debris and soil around it. The Richardsons bought another house in town and have joined other residents in suing Doe Run and the smelter's previous owners for being "negligent and careless" in operating the smelter by allowing "hazardous and dangerous toxic metals and substances to come into direct physical contact" with townspeople. Doe Run is contesting the lawsuits and says in SEC filings that it's "working with regulators to develop a new three-year compliance plan to implement identified control measures."

The usually low-profile, 64-year-old Rennert has stirred controversy of another sort in another location--the Hamptons, the enclave of the rich and famous at the eastern end of Long Island, N.Y. He's not pumping lead into the air there, but he is building a house on a 63-acre tract facing the ocean--a house that will be not only the largest on Long Island but one of the largest in the country. At 66,000 sq. ft.--about the size of 1 1/2 football fields--Fair Field will dwarf even the new $53 million home of Microsoft's Bill Gates, which is a mere 40,000 sq. ft.

When completed, the main dwelling in the Rennert villa--it's classed as a single-family home--will house an art gallery, two libraries, three dining rooms, 11 sitting rooms, quarters for more than a dozen servants, 25 bedrooms and 41 bathrooms. To service such accommodations, Fair Field will be equipped with eight septic tanks; four water tanks for heating, cooling and firefighting; two diesel-fuel storage tanks and one unleaded-gasoline storage tank.

The cost? Somewhere between $30 million and $100 million. Less than Rennert's companies receive in corporate welfare.

from TIME Magazine, 1998-Nov-23 (V152N21), by Donald L. Barlett and James B. Steele, from http://cgi.pathfinder.com/time/magazine/1998/dom/981123/special_report.corporat8a.html:

Sweet Deal

WHY ARE THESE MEN SMILING? THE REASON IS IN YOUR SUGAR BOWL

Occupying a breathtaking spot on the southeast coast of the Dominican Republic, Casa de Campo is one of the Caribbean's most storied resorts. It bills itself as "a hedonist's and sportsman's dream," and that's truth in advertising. The place has 14 swimming pools, a world-class shooting ground, PGA-quality golf courses and $1,000-a-night villas.

A thousand miles to the northwest, in the Florida Everglades, the vista is much different. Chemical runoff from the corporate cultivation of sugar cane imperils vegetation and wildlife. Polluted water spills out of the glades into Florida Bay, forming a slimy, greenish brown stain where fishing once thrived.

Both sites are the by-product of corporate welfare.

In this case the beneficiaries are the Fanjul family of Palm Beach, Fla. The name means nothing to most Americans, but the Fanjuls might be considered the First Family of Corporate Welfare. They own Flo-Sun Inc., one of the nation's largest producers of raw sugar. As such, they benefit from federal policies that compel American consumers to pay artificially high prices for sugar.

Since the Fanjuls control about one-third of Florida's sugar-cane production, that means they collect at least $60 million a year in subsidies, according to an analysis of General Accounting Office calculations. It's the sweetest of deals, and it's made the family, the proprietors of Casa de Campo, one of America's richest.

The subsidy has had one other consequence: it has helped create an environmental catastrophe in the Everglades. Depending on whom you talk to, it will cost anywhere from $3 billion to $8 billion to repair the Everglades by building new dikes, rerouting canals and digging new lakes.

Growers are committed to pay up to $240 million over 20 years for the cleanup. Which means the industry that created much of the problem will have to pay only a fraction of the cost to correct it. Government will pay the rest. As for the Fanjuls, a spokesman says they are committed to pay about $4.5 million a year.

How did this disaster happen? With your tax dollars. How will it be fixed? With your tax dollars.

It is not news that sugar is richly subsidized, or that the Fanjuls have profited so handsomely. Even as recently as 1995, when Congress passed legislation to phase out price supports for a cornucopia of agricultural products, raw sugar was spared. Through a combination of loan guarantees and tariffs on imported sugar, domestic farmers like the Fanjuls are shielded from real-world prices. So in the U.S., raw sugar sells for about twenty-two cents a pound, more than double the price most of the world pays. The cost to Americans: at least $1.4 billion in the form of higher prices for candy, soda and other sweet things of life. A GAO study, moreover, has estimated that nearly half the subsidy goes to large sugar producers like the Fanjuls.

A spokesman for Flo-Sun, Jorge Dominicis, said the company disagrees with the GAO's estimate on the profits the Fanjuls and other growers derive from the program.

"That is supposed to imply somehow that our companies receive $60 million in guaranteed profits," he said, "and that is flat-out not true. Our companies don't make anywhere near that kind of profit."

Dominicis, like other proponents of the sugar program, contends that it doesn't cost taxpayers a penny and is not unlike government protection of other American industries. "If our [sugar policy] is corporate welfare, which I don't believe it is, then all trade policy is corporate welfare," he says.

Flo-Sun is run by four Fanjul brothers, Alfonso ("Alfie"), Jose ("Pepe"), Andres and Alexander. Their family dominated Cuba's sugar industry for decades, and they came to this country with their parents in 1959, after Fidel Castro seized power. The Fanjuls arrived just as a U.S. Army Corps of Engineers project to control the flow of water in the Florida Everglades made large-scale development possible. The total acreage planted in sugar cane there soared--from 50,000 acres in 1960 to more than 420,000 today.

Within that swampy paradise lies yet another subsidy. Each year, according to a 1997 estimate, the Army Corps of Engineers spends $63 million to control water flow in central and south Florida. This enables growers to obtain water when they need it or restrain the flow during heavy rains. Of the $63 million, the Corps estimates $52 million is spent on agriculture, mainly sugar-cane farmers, in the Everglades.

Even with the additional production from the Glades, propped up by price supports, the U.S. can't produce all the sugar it needs. The Federal Government rations access to the lucrative U.S. market by assigning quotas to 40 sugar-producing nations, most of them developing countries. And, remarkably, the Fanjuls have found riches here too. Every year, the country that receives the largest sugar quota is the Dominican Republic. With a per-capita income of $1,600 a year and an unemployment rate hovering around 20%, that Caribbean nation needs all the economic help it can get. And who is the largest private exporter of Dominican sugar? The Fanjuls, thanks in part to their long-standing relationship with the Dominican Republic's politicians. Through a subsidiary, Central Romana Ltd., the brothers grow sugar cane and operate the world's largest sugar mill there. The profit margin is substantial, partly because cane cutters on the island earn about $100 a month, making production costs much lower than in Florida. From their Dominican plantation the Fanjuls export roughly 100,000 tons of raw, duty-free sugar each year to the U.S.

Whether they sell sugar from their holdings in the Everglades or from their mill in the Caribbean, the Fanjuls are guaranteed a U.S. price that is more than double anywhere else in the world. As might be expected, having it both ways has propelled the Fanjuls into the ranks of the richest Americans. Their wealth is counted in the hundreds of millions of dollars.

And although they appear frequently in the society pages, the Fanjuls won't be caught dead in the financial section. As Emilia Fanjul, the wife of Pepe, once confided to a society reporter, "We like to be private about the business."

Depending on the season, the Fanjuls can be found shooting game in Scotland, skiing in Switzerland or relaxing at their spectacular Casa de Campo. These 7,000 acres overlooking the sea have long been a favorite playground of the wealthy. But Palm Beach is still their real home, and Florida is still the heart of their financial empire. They now farm an estimated 180,000 acres of cane-producing land in the Everglades--43% of the total--making them one of the two-largest sugar growers in the state.

For decades, this region has been home to one of the worst jobs in America--hacking cane with a machete. Until the work was mechanized in the 1990s, the growers had to bring in thousands of cane cutters from the Caribbean every season. Yet in preserving the subsidy that has made millionaires of the Fanjuls, Congress has cited the fact that it saves American jobs.

Migrant-labor organizations and legal-aid groups in Florida have long waged an ongoing battle with the Fanjuls and other growers over the abysmal conditions. Greg Schell, an attorney with the Migrant Farmworkers Justice Project in Belle Glade, Fla., contends that of all the growers, the Fanjuls have treated their workers the worst. "They are in a class by themselves," he said. A lawsuit seeking back wages and benefits is expected to go to trial next spring.

Every few years, critics of the sugar program attempt to roll back the subsidy that has enriched the Fanjuls and kept sugar prices high. And every time they fail, largely because of the power of the sugar lobby, which includes not just large growers like the Fanjuls but thousands of small sugar-beet farmers in other parts of the nation.

Though by no means the largest special interest in Washington, the sugar lobby is one of the most well-heeled. And among growers, the Fanjuls are big givers. Family members and corporate executives have contributed nearly $1 million so far in this decade, dividing the money fairly evenly between political parties.

This knack for covering all political bases carries all the way to the top of the Fanjul empire. Alfonso Fanjul served as co-chairman of Bill Clinton's Florida campaign in 1992. His brother Pepe was national vice chairman of finance for Bob Dole's presidential campaign in 1996 and was host to a $1,000-a-head fund raiser for Dole at his Palm Beach mansion. After Clinton's 1992 victory, Alfie was a member of the select group invited by the Clinton camp to attend the President-elect's "economic summit" in Little Rock, Ark.

Careful readers of Kenneth Starr's impeachment report to Congress will note that on Feb. 19, 1996, Alfie called President Clinton while the President was closeted with Monica Lewinsky in an emotional meeting in the Oval Office. After breaking the news that "their intimate relationship" would have to end--temporarily, as it turned out--the President returned Fanjul's call; Lewinsky left. The two spoke for 22 minutes. The topic: a proposed tax on sugar farmers to pay for the Everglades cleanup. Fanjul reportedly told the President he and other growers opposed such a step, since it would cost them millions. Such a tax has never been passed.

That's access.

from TIME Magazine, 1998-Nov-23 (V152N21), by Donald L. Barlett and James B. Steele, from http://cgi.pathfinder.com/time/magazine/1998/dom/981123/special_report.corporat5a.html:

ARIZONA
WHAT'S THAT ROTTEN SMELL IN PHOENIX?

It's not always easy being part of the global economy. It's especially not easy when your city offers corporate welfare to an overseas company to come in and pollute your neighborhood.

That's what happened last year, when Phoenix bent over backward to attract a silicon-wafer plant operated by Sumitomo Sitix of Japan. Ever since, complaints have rolled in from frantic residents. Complaints about the brownish plumes drifting from the plant smokestack, the rotten-egg odor that perfumes the neighborhood, the 10,000-gal. acid spill, the use of toxic chemicals in a residential area.

Maricopa County authorities responded by levying a $300,000 fine on the plant. Only $120,000 of that was a penalty. The company was asked to spend the other $180,000 trying to eliminate the rotten-egg odor and monitor the plant.

The company is part of the giant Japanese Sumitomo Group, which had annual revenues in 1997 of more than $120 billion--more than all but a handful of American companies. As for the $120,000, that worked out to about one-tenth of 1% of the enticements the company was given to move to Phoenix in the first place--an assortment of tax breaks, city services and other deals awarded by the city and state.

For the first five years, Sumitomo is paying $59,000 to rent the 105-acre site from the state. That works out to $562 an acre. Later, the rent rises to $2,048 an acre. Not bad for an area where an acre sells for $80,000 to $100,000.

In addition, the city of Phoenix came up with $7 million for water, sewer and street improvements. It also sponsored the company's application to have the plant site designated a foreign-trade zone by the U.S. Department of Commerce. That saved the company $4 million in local taxes in 1998 alone. That number could hit $10 million a year when the plant reaches full capacity.

Foreign-trade zones were created in 1934 "to create employment [that] might otherwise have been carried on abroad." But Sumitomo had already decided to build a U.S. facility in 1995; the only question was where.

How did all this come about?

With great stealth.

A "confidential memorandum" prepared in June 1995 by the Greater Phoenix Economic Council cautioned, "The company has made it very clear that it wants no more news stories in Arizona publications, and has asked us to assign a code name for the project."

And then there was the letter from the city assuring Sumitomo that the company would remain anonymous during the rezoning process. It read, "Sumitomo...will not need to participate in the rezoning process and will not be identified."

All that was in keeping with the tone set by then Governor Fife Symington in a two-page letter to Sumitomo in May 1995. The Governor assured the company that promised reduced real estate and other taxes would "have no mandated expiration date" and that acquisition of the site would be handled "expeditiously." "Our state," he promised, will be "your partner."

Two years later, Symington resigned from office, convicted of bank- and wire-fraud charges unrelated to Sumitomo, after he submitted false financial statements to secure millions of dollars in loans as his real estate empire was collapsing.

Today, Symington is free on appeal of a 30-month prison sentence. And parts of Phoenix still smell like a rotten egg.

from TIME Magazine, 1998-Nov-23, by Donald L. Barlett and James B. Steele, from http://cgi.pathfinder.com/time/magazine/1998/dom/981123/special_report.corporat6a.html:

LOUISIANA

THE $29 MILLION JOB

Like all states that practice corporate welfare, Louisiana argues that tax breaks help create jobs. But do the math, and you'll discover that the real cost of adding new jobs doesn't add up.

The Biggest Recipients

Companies ranked by total industrial-property tax abatements, 1988-97

COMPANY	JOBS CREATED	TOTAL TAXES ABATED
1. Exxon Corp.	305	$213,000,000
2. Shell Chemical/Refining	167	$140,000,000
3. International Paper	172	$103,000,000
4. Dow Chemical Co.	9	$96,000,000
5. Union Carbide	140	$53,000,000
6. Boise Cascade Corp.	74	$53,000,000
7. Georgia Pacific	200	$46,000,000
8. Willamette Industries	384	$45,000,000
9. Procter & Gamble	14	$44,000,000
10. Westlake Petrochemical	150	$43,000,000

The Costliest Jobs

Companies ranked by net cost of each new job (abatements divided by jobs created)

COMPANY	JOBS CREATED	COST PER JOB
1. Mobil Oil Corp.	1	$29,100,000
2. Dow Chemical Co.	9	$10,700,000

3. Olin Corp.	5	$6,300,000
4. BP Exploration	8	$4,000,000
5. Procter & Gamble	14	$3,100,000
6. Murphy Oil USA	10	$1,600,000
7. Star Enterprise	9	$1,500,000
8. Cytec	13	$1,500,000
9. Montell USA	31	$1,200,000
10. Uniroyal Chemical Co.	22	$900,000

from TIME Magazine, 1998-Nov-9 (V152N19), by Donald L. Barlett and James B. Steele, with reporting by Laura Karmatz and Aisha Labi, and research by Joan Levinstein, from http://cgi.pathfinder.com/time/magazine/1998/dom/981109/special_report.corporat2a.html:

States At War

Shrewd companies are increasingly pitting politicians against one another in a quest for bigger and better tax breaks. Yet rarely do these subsidies create jobs, and the incentives sometimes rob government coffers of funds that could be used to improve services for you and your neighbors

ARKANSAS
Ever Try to Drink a Potato Chip?

The water in Evansville, Ark., stinks--literally.

The town sits smack atop a geological formation where sulfur, natural gas and other petroleum products mingle with the groundwater. The result is a nasty mix that is unusable to residents. Many of the town's wells are also contaminated with potentially deadly E. coli pollutants. So a commodity most Americans take for granted simply does not exist in Evansville. "My five-year-old daughter doesn't know what it's like to get water out of a faucet," says resident Helen Martin. For the past five years, 200 families in this hamlet in the northwestern part of the state have sought $750,000 from the Arkansas Economic Development Commission for a new water system. Sorry, comes the reply, there is no money in the budget.

City water in Jonesboro, Ark., doesn't stink. In fact, even wastewater flowing out of the big, new Frito-Lay plant there runs through an expanded treatment facility in order to minimize environmental problems. That expansion was part of a multimillion-dollar incentive package the AEDC gave Frito-Lay to lure the company to Jonesboro. Frito-Lay is not exactly needy. It is a profitable subsidiary of PepsiCo Inc., the giant soft-drink and snack-food company that had sales of $20.9 billion in 1997.

Evansville is one of the minor casualties in the war among the states over jobs. Money is lavished on would-be employers even at the expense of some citizens' basic needs. But in the minds of state politicians and economic developers, this is a small price to pay. From a purely economic point of view, they are dead wrong. But economics and politics are seldom a rational mix.

Jonesboro got its plant after the community and state agreed to enlarge the sewage-treatment facility and provide an array of other economic incentives. Exactly how much aid was pumped into Frito-Lay to build the plant is not easy to find out. A Frito-Lay representative said the information was "proprietary." An AEDC representative, Michaela Johnson, was equally secretive, saying, "That whole project's confidential. We can't divulge that."

TIME can. Based on reports published when Jonesboro was recruiting Frito-Lay, and on more recent information obtained from other sources, TIME estimates the value of the Frito-Lay aid package at more than $10 million. And that is in addition to $104.7 million in industrial-development revenue bonds issued by the city of Jonesboro to build and equip the potato-chip plant. The other incentives include the 140-acre plant site, a rail spur, road improvements, a construction grant, tax credits for new employees and a 20% discount on sewer bills for the next 15 years. That sewage-treatment plant, by the way, cost $7 million and is large enough to accommodate a second city the size of Jonesboro (pop. 50,000). So for each of the 165 workers at the plant, the government has invested $61,000--which is a lot of chips.

Lynn Markley, a spokeswoman for Frito-Lay, says the company selects the general region where it wants to locate a new plant. It then prepares a sort of shopping list of requirements for the facility and contacts states about incentives.

"When we need to...build a plant, say, in Jonesboro, [we] look at a 150-mile radius to the center of the market," says Markley. "We knew we needed a plant in the Tennessee-Arkansas-Missouri area. So with very detailed information, we contacted those states and gave them very specific details on what we needed... [And] based on that, the states compete."

Meanwhile, in Evansville the campaign for clean water goes on, and the citizens cope as best they can. Says Janie Watkins, who along with her husband runs the town's only grocery store: "If we take a bath, we don't wash clothes. If we wash clothes, you can't take a bath. Most people get a bath every day. We can't... You get [a bath] every two days or three days, you're lucky."

Christina Seward, mother of three small children, says her boys love to drink water. "But I don't have to tell them not to drink this water," she says. "The taste, the dirt--you wouldn't want to drink it. You put water in a glass, and you can see the dirt settle to the bottom. We don't know what's in it--we just know it's not safe."

Indeed, the Sewards' well was tested by the Arkansas Department of Health in 1996 and found to be contaminated with particles of fecal matter "too numerous to count." The Sewards use well water only to wash clothes, but not light-colored articles. The water turns "white things yellow," says Seward.

In order to drink, cook, bathe and wash, residents haul bottled water from nearby towns or load up on barrels from natural springs in the hills above Evansville. Since their campaign for water began, residents have appealed repeatedly to the state to provide a share of the $1.5 million project. "We've done everything they wanted us to do," says Kaye Trentham, who operates K.T.'s Cafe. "But we still don't have water."

The Evansvilles of America are growing in number as the job wars intensify. Since the 1980s, states have added one economic-incentive program after another to retain existing corporations and lure new ones. Even states that once refused to compete are reversing course. North Carolina, which had long shunned big-ticket deals, abruptly shifted gears last summer and enacted the Economic Opportunity Act of 1998. The first two beneficiaries:

--Federal Express, the global delivery service with headquarters in Memphis, Tenn., that had 1997 revenues of $11.5 billion, will receive $115 million in state tax concessions and other economic benefits to build a hub at Greensboro, N.C.

--Nucor, a company based in Charlotte, N.C., that operates steel mills in half a dozen states and had 1997 revenues of $4.2 billion, will receive $155 million in state economic assistance to build a mini-steel mill in Hertford County in the northeastern corner of the state.

Why has North Carolina joined in the great scramble to give away incentives? The same reason all the other combatants are in it: jobs. Or at least job announcements. As John Hood, president of the John Locke Foundation (a Raleigh, N.C., public policy institute that advocates individual liberty, a free-market economy and limited government), put it, "Creating jobs is not the goal of these [economic-incentive] programs. The goal of these programs is to create job announcements."

And create them they do.

Said David N. Dinkins (then mayor of New York City) in October 1993, on $31 million in incentives awarded to Kidder, Peabody Group Inc.: "The decision by Kidder, Peabody demonstrates in dramatic fashion that our job-retention strategies are working."

Said Jim Rout, mayor of Tennessee's Shelby County (where Memphis is located), in July 1995, on more than $20 million in incentives given to Birmingham Steel Corp.: "These are not expenses--they're investments. These kinds of investments will pay off... It represents skilled, well-paying jobs."

Said Frank O'Bannon, Governor of Indiana, in March 1997, on a $1.7 million tax abatement to Crown Equipment Corp. for a plant in Greencastle, Ind.: "With at least 200 good-paying new jobs, this expansion will be an important addition not only to Putnam County's economy but to all of west-central Indiana."

Said Christine Todd Whitman, Governor of New Jersey, in May 1997, on millions of dollars passed around to four large businesses under the state's new Business Employment Incentive Program: "This is what the BEIP was meant to do, create jobs and increase opportunities for New Jersey families... This is...a red-letter day for jobs [in New Jersey]."

Don't believe it.

Jobs are created, of course, by the American economy--not by this process.

TIME's investigation has established that almost without exception, local and state politicians have doled out tens of billions of taxpayer dollars to businesses that are in fact eliminating rather than creating jobs. Some of the money has gone to prop up individual companies and avoid the consolidation within industries that an unfettered market would bring about. Some has been pumped into profitable companies, making them more profitable. Some has been awarded to companies that have threatened to move if they don't get it. Some has been diverted to businesses that local politicians have somehow divined will be more successful than their competitors. And last, some has gone to entire industries that are shrinking.

Witness a $300,000 grant to Anchor Glass Container Corp. last year, described by Pennsylvania Governor Tom Ridge's administration as part of an effort "to retain 275 existing jobs" at the firm's Connellsville, Pa., plant.

Retain 275 jobs?

A decade earlier, in 1987, Anchor Glass employed 9,900 people nationwide--about 1,000 of them in Pennsylvania. By the time the company began seeking economic incentives, more than half the work force had vanished as employment plunged to 4,500. Two plants were closed in Pennsylvania. And just a few months earlier, the Connellsville plant had completed another round of layoffs, bringing the total for the year to 200. The company was telling the state all it needed to know about what kind of future it saw in Connellsville.

Cities go to extremes to keep jobs in the manufacturing sector, partially because they pay more than most service jobs. Here is how Edward G. Rendell, mayor of

Philadelphia, explained why last year $307 million in local and state economic incentives in addition to $119 million in federal aid was being given to Kvaerner ASA, Europe's largest shipbuilder: "Those are good, honest jobs that pay a living wage and significant benefits. Jobs you can build a family on."

True enough. But Rendell cannot reverse the tide of economic forces. And no industry is a better example of the futility of subsidies than American shipbuilding. It has not been a vital U.S. business for decades. Yet surplus shipyards continue to be kept alive by subsidies from local and state governments, the Federal Government and sometimes all three. Without this aid, consolidation would have occurred long ago--as it has in virtually every other field, from defense to banking. Avondale Industries in New Orleans, for example, first went on the corporate-welfare rolls in the 1930s, when the state waived payment of personal property taxes. It's still on the dole today. Over the past decade, Avondale has been excused from paying $8 million in property taxes alone.

NEBRASKA
The Job Is Meaty; The Pay Is Not

Not long ago, the state of Nebraska created an authority to dispense corporate welfare. It's called the Nebraska Quality Jobs Board. So what does the board consider a "quality job"?

Well, when do you want to go to the bathroom? In the morning or the afternoon? Pick one or the other. Not both. That is your choice at Nebraska Beef Ltd., an Omaha beef-packing company and jobs-board beneficiary. Listen to a young Mexican worker--he has taken a few days off at the suggestion of a supervisor, who noted that immigration agents were coming to the plant to inspect citizenship papers. Listen as the worker describes his daily routine on the factory floor, where he wields a 6-in. knife, slashing carcasses on an assembly line that never slows:

"We tell the [supervisors], 'Hey, I want to use the rest room.' [They say,] 'O.K., 10 minutes. Go now.' [That's] only once a day [you can go]... I have to think if I can go drink some water because I know I'm going to have to go use the rest room." He continues: "We start at 6 o'clock in the morning. But I got there at 5 o'clock to just get ready, drink my coffee, work my steel... If we work 10 hours, they give us a break at 2:30. If we was going to go nine hours, they don't give us no break."

Nebraska Beef is the entity that got the breaks. The jobs board awarded the company an estimated $7.5 million in tax credits in 1996, as well as a laundry list of other benefits. The award was all the more curious because the company had started work on its new plant before the board even existed. Other aid has pushed the total value of giveaways to Nebraska Beef to between $24 million and $31 million.

An exact total is not available, since the state refuses to disclose the amount of taxpayer funds for this or any other approved project. But Nebraska does say that the tax credits were extended under programs that "could substantially reduce or even eliminate [a] company's tax liability."

When state lawmakers created the jobs board in 1995, they had in mind "major business expansion and relocation projects needed to stimulate the growth of populations and create better jobs for the citizens of Nebraska."

At Nebraska Beef, many of the workers are not citizens, in part because even hardworking Nebraskans aren't likely to come running for jobs that start at about $8 an hour for such grueling labor. Nebraska Beef employees can count on a raise of 25[cents] an hour every year they stay on the job, which means that in two years, a butcher is making $8.50. That is $17,680 a year for a 40-hr. week, about $1,200 above the poverty level for a family of four.

Not surprisingly, Nebraska Beef goes through employees the way it does carcasses: at one point, 50% of the workers who completed state training for their jobs were gone within 10 months. A review by the state auditor of public accounts showed that Nebraska Beef had used at least a million dollars in state funds in one year to train workers who eventually left their jobs. The audit noted dryly, "It would appear the number of employees no longer employed with the company and amount of money spent for job training on these individuals was not in the best interest of the state of Nebraska."

Nebraska Beef did not respond to our inquiries.

NEW YORK
When Factories Become Fixer-Uppers

Defenders of economic incentives like to say that safeguards can be built into the law, so that if companies fail to deliver on the promised number of jobs, they can be required to pay back the taxes that have been canceled. If you believe that, it might be worth pondering the story of ABB Instrumentation Inc. in Rochester, N.Y. The company, which makes industrial instruments, is a subsidiary of ABB Asea Brown Boveri Ltd., the giant Swiss and Swedish conglomerate with interests in power generation, transmission and distribution.

In 1991, ABB applied to the County of Monroe Industrial Development Agency, requesting tax breaks and other incentives to move from its aging downtown Rochester location into a new building in a suburban industrial park. The company explained that its plant, built in 1906, was in a "declining industrial neighborhood on the west side of Rochester." ABB said there had been "no significant cost improvements or modernization...since 1950," which threatened its "ability to compete in a tightening world market." In short, neither ABB nor its predecessor had spent money updating the plant.

Nonetheless, the company was quite blunt about what it would do if economic aid was not forthcoming: relocate to Ohio, or England, or even Mexico or Venezuela. Only then did COMIDA agree to issue $21 million in industrial revenue bonds, with ABB using the proceeds to erect a new building. COMIDA excused the company from paying sales tax on materials to construct the plant. And it waived a chunk of ABB's real estate taxes for 10 years. Overall, the tax breaks were worth about $5 million.

To secure a real estate-tax abatement, a company is required by Monroe County to guarantee that it will create 25 new jobs. If it fails to do so, it must refund a portion of the reduced taxes. ABB promised to boost employment at the new facility from 723 workers in the first year to 819 by the third. Instead, even before moving into its new building, the company began cutbacks. By December 1996, ABB reported that its work force totaled just 393. In short, rather than creating the 25 positions required by the county, ABB eliminated 426 real and projected jobs.

Then ABB cried poverty, telling the development agency, "If you rescind the tax exemption, we'll owe $1.2 million in taxes, which we can't afford."

To date, Monroe County has waived collection. Thus, a division of a multinational company--which had sales of $31 billion last year--received some $26 million in tax breaks and economic aid. For what? To eliminate 426 jobs.

ABB illustrates another corporate-welfare story that TIME encountered repeatedly. After failing to keep a facility up to date, a company claims a plant is "archaic" and threatens to close it unless government officials come up with incentives to help pay for modernization. That is what happened in Louisville, Ky., where a much larger conglomerate, General Electric Co., said that to meet profit goals, its plant had to be modernized--with taxpayer dollars. This from a company that appears at the top of the lists of the "best managed" corporations in America, whose revenue last year reached $91 billion and whose earnings topped $8 billion.

GE, which over the years had failed to update a washing-machine factory in Louisville--described as an "obsolete facility" that is "just one step above archaic"--threatened to close it unless state and local governments helped subsidize its modernization and 7,000 hourly employees agreed to cost-cutting work rules.

Faced with this threat, Kentucky officials hired Coopers & Lybrand, an accounting and consulting firm, to conduct a study--paid for by GE--on whether the company really intended to turn out the lights. The answer Coopers & Lybrand came up with: yes.

It is not clear why the state of Kentucky believed it was the responsibility of taxpayers to improve GE's profit margins. Nevertheless, in 1993, Kentucky granted $19 million in income tax breaks over 10 years to the washing-machine factory in GE's sprawling Appliance Park complex. The city of Louisville and Jefferson County kicked in an additional $1 million.

The tax break notwithstanding, employment in Appliance Park continues to fall. Last February, GE announced that over the next two years, 1,500 jobs would be eliminated as range and dryer production is phased out and moved to Georgia, where wages are lower, and Mexico, where wages are much lower. Today 6,200 people work in Appliance Park--down 72% from a high of 22,250 in 1973.

NEW MEXICO
Intel's Billion-Dollar Bunny Suits

With ABB and GE, the threat of losing jobs often became too much for a community to bear. The workers, their families and local politicians wanted to keep the jobs at all costs.

Yet the same hysteria flows when large, fast-growing high-tech companies start shopping around for new plant locations. Intel Corp. invited six Western states--Arizona, California, New Mexico, Oregon, Texas and Utah--to compete for a new computer-chip fabrication plant, or fab, and selected the winner in March 1993. A senior executive explained the decision this way to the San Jose Mercury News: "We're going to build where Intel gets the best deal."

And what a deal it got. New Mexico and the community of Rio Rancho, just north of Albuquerque, won the bidding war by showering Intel with tax abatements and other assistance. Sandoval County, where the company erected its fab, authorized $2 billion in industrial revenue bonds in 1993 and an additional $8 billion in 1995--the largest local-government bond offering in history. The county held title to the land, building and equipment, which it leased back to Intel.

Since governments are not taxable, this arrangement enabled Intel to escape property and sales taxes. Then there is the investment-tax-credit deal, which allows Intel to pocket a portion of the state income taxes withheld from its bunny-suited tech workers' paychecks. In addition, the state provided money to train workers. These and other benefits add up to a third of a billion dollars in aid for Intel.

From Intel's vantage point, that is simply the way the system works. A company spokesperson said that states offer incentives "because they want to compete, and they obviously want the project in their jurisdiction rather than somebody else's... They try to develop their incentive package around those specific industries...that they want to build."

In any event, when some local residents challenged the giveaways as too costly, a citizens group supported by Intel commissioned a study to determine the company's impact. It concluded that the incentives "resulted in a good deal for

New Mexico" and that Intel's expansion had created 10,000 jobs statewide by 1995.

But a TIME analysis of federal tax-return data raises questions. Let's look at two four-year periods, before and after Intel's massive Rio Rancho project.

Between 1989 and 1992, the number of federal income tax returns filed by New Mexico residents who showed wage income increased by 35,770--or 6.6%. Between 1993 and 1996, when the Intel-related jobs were created, wage returns rose 40,551, or 6.8%, a marginal increase.

More significantly, tax returns showing wages in three income groups ($30,000 to $50,000, $50,000 to $75,000 and $75,000 to $100,000) went up at a faster pace in the 1989-92 period than in the post-Intel era. Only two income groups increased faster in the later years: those at the bottom, with earnings of less than $30,000; and those at the top, with earnings in excess of $200,000.

Even more telling is the jump in the number of federal tax returns from New Mexico claiming the earned income tax credit. That is the credit intended to supplement the income of the working poor. Between 1989 and 1992, the number of such returns went up 14%, from 112,334 to 127,900. But between 1993 and 1996, it climbed twice as fast, shooting up 31%, from 134,613 to 175,797.

And although Intel is one of the largest corporate income taxpayers in the state, it has fared well in recent years. Documents filed with the U.S. Securities and Exchange Commission show that in 1991, Intel paid corporate income taxes to state governments at an effective rate of 8.6%. By 1997, while the company's taxable income had spiraled upward 1,097%, its overall state tax rate had dropped to 4.8%.

Let's put those numbers in more personal terms. Suppose in 1991 you had a household income of $30,000. If your income had gone up at the same rate as Intel's, by 1997 you would have earned $359,100. Yet you would have saved $13,600 in state taxes. And you would owe it to the clout you exercise: the ability to demand and receive special tax treatment.

KENTUCKY
An Extra-Special Delivery for UPS

Among the variables that companies take into consideration in site selection is the labor pool. They are concerned not just with wage rates but also with the availability and quality of workers. So some states and municipalities, in partnership with business, have created industrial-education programs, mainly in community colleges. The schools' curriculums are often designed to train skilled workers for the area's most prominent industries.

The state of Kentucky took a different tack earlier this year when it agreed to create higher-education programs specifically designed to provide United Parcel Service of America Inc. with a steady flow of part-time workers to load and unload packages from airplanes and trucks.

Confronted with a need to build an international air-hub facility and with a shrinking supply of willing workers at existing pay rates, UPS advised Louisville and Kentucky officials that it would pull 15,000 jobs out of the state if it did not receive suitable aid.

Government officials complied. On top of the usual assortment of incentives, worth more than $80 million, they agreed to form a joint educational venture, a sort of UPS University, that will allow students to attend classes offered by the University of Louisville, Jefferson Community College and Kentucky Tech-Jefferson Campus. Students enrolled in what has been dubbed the Metropolitan Scholars Program will be able to earn technical certifications and two-year or four-year degrees.

Most important, college life will be designed to fit the needs of UPS. Student workers, the company says, "will experience a daily schedule that will essentially reverse their internal clocks. Class schedules, social activities and sleep patterns will evolve around the hours of the night shift at UPS." This means classes will be held between 5 p.m. and 10 p.m., allowing students to work through the night and sleep during the day. Classes cease between Thanksgiving and New Year's Day, the company's peak delivery period. Special dorms will be built to accommodate the night-working students. Tuition will be free, with the state and other sources picking up half the cost and UPS the other half if "the student completes his or her work obligation."

To Kentucky Governor Paul Patton, this is one for the win column. "We will ensure that UPS has the workers it needs," he said. To fiscal conservatives, there is something wrong with this picture. If UPS wants to assure itself an adequate supply of labor, it might try raising wages. But with well-paying jobs now plentiful in the area, the company was having difficulty attracting a sufficient number of workers for part-time work, much of which is on the night shift. College students--the traditional source of night-shift workers for UPS--were not responding to the $8.50 an hour wage it offered, even with benefits. So the state will, in effect, create more college students.

Local authorities defend the deal with a rosy economic forecast prepared for Greater Louisville Inc., the metropolitan area Chamber of Commerce. The chamber study predicts that 6,000 UPS jobs "will spawn nearly 8,000 additional jobs" throughout the region. It is estimated that all those jobs in turn "will generate more than $477 million annually in payroll growth." As is the case with many economic-impact statements, the numbers are fuzzy. But whatever the case, growth would have occurred somewhere in the U.S., perhaps even in Louisville, where UPS is already heavily invested. To remain competitive, UPS had no choice but to build an air-hub facility somewhere, with or without taxpayer dollars.

ALABAMA
Singing Lessons from An Auto Company

There was no question that like UPS, Mercedes-Benz was going to build a plant someplace in this country. First of all, the U.S. is an important market for Mercedes; second, wages and more flexible work schedules make manufacturing costs lower here than in Europe.

Lower than Mercedes-Benz ever imagined. Alabama taxpayers essentially built and equipped a new plant for the company in the tiny town of Vance, a few miles east of Tuscaloosa. Mercedes received a package of incentives that totaled $253 million in value. For example, Alabama acquired and developed the plant site in Vance for $60 million. It used National Guard troops to clear the land and spent $77.5 million on utility improvements and roads.

The Mercedes-Benz plant illustrates a fundamental principle of corporate welfare: everyone else pays for economic incentives--either with higher taxes, fewer services or both.

To understand this, go to the Vance Elementary School, located a football field or two from the plant. Of course, you cannot actually see the school building. That is because it is surrounded by portable classrooms--17 in all. They are being added at the rate of two a year. Inside the school, the results of crowding 540 pupils (expected to be 700 to 800 within the next two years) into a building designed for 290 are readily apparent--a marked contrast with the roominess of the $30 million training school the state built for Mercedes. Throughout the school day, students stand in line to take their turn in one of the six tiny rest rooms serviced by a septic system, which produces its own unpleasant consequences on occasion, since the septic tanks were also built for 290 pupils. That contrasts with the new sewer lines the state laid for Mercedes. Then there is the cafeteria. Because of the overcrowding, lunch starts at 10:30 a.m.--soon to be 10:15--not long after many pupils ate breakfast. Last there is the safety issue. Vance and other schools in the area are in the middle of tornado alley. Whenever a tornado watch is sounded, the portable classrooms are emptied, and pupils are shepherded into classrooms in the main building.

To be sure, Mercedes is not responsible for all these deficiencies. Alabama traditionally has ranked near the bottom of the 50 states when it comes to education. But the presence of Mercedes has not added anything, except more students.

Nevertheless, at the elementary school, principal David Thompson is an unabashed Benz booster. When the school needed extra buses to transport pupils to the ballet, Thompson said, Mercedes provided them. And when the car company learned the school was mounting a production of Hansel and Gretel, it dispatched several of its expats to help the pupils learn German songs. The experience made a lasting impression on the students. As Thompson put it, "They couldn't tell you your multiplication tables if you asked them. If you say, 'What's 9 times 7?', they probably have already forgotten it. But they can still sing those songs in German."

OHIO
Does GM Mean General Movers?

Given the money politicians are willing to spend, it is no wonder companies have made their assets portable--game pieces that can be moved around the board of economic development. General Motors Corp. has played the game like a champion, a classic example of a company that has secured hundreds of millions of dollars in corporate welfare at the same time that it has eliminated thousands of jobs. And, according to business analysts, GM has to eliminate 50,000 more jobs if it wants to survive the next century.

In effect, the company is in the process of auctioning its surviving jobs to the highest bidders in the communities where it does business. Here's how it works: during the summer of 1997, GM let it be known that it was considering a $355 million expansion of an assembly plant in Moraine, Ohio, to build sport-utility vehicles. The decision would hinge on the size of tax breaks granted by the city government. After all, two other cities with GM truck plants--Shreveport, La., and Linden, N.J.--were vying for the new facility. At least that is what GM officials hinted to Moraine officials. And that is what the local newspaper, the Dayton Daily News, duly reported.

There was one problem. The story GM floated was not true. Company executives later apologized for any misunderstanding. Erroneous claims aside, Moraine agreed to exempt General Motors from taxes on $355 million worth of machinery, equipment and inventory for 10 years and to excuse the company from real estate taxes for 15 years on the planned $65 million building.

So how much did GM save? Moraine city officials will not say, but county officials estimate GM is off the hook for $30 million in real estate and personal property taxes. GM also put the touch on the county economic-development authority for a cash grant of $1 million.

GM extracted the concessions at a time when the company's profits for 1995 and 1996 totaled $11.8 billion. To put that figure in context, it would be enough money to run the West Carrollton schools, where most Moraine children attend classes, for the next 400 years. As 1997 gave way to 1998, GM dangled the possibility of yet another plant before the Moraine city fathers, and they jumped. This time the tax relief amounts to an estimated $28 million--or about $156,000 for each of the 180 new jobs to be created.

One final twist: Moraine employees will be hired under a new, three-tiered wage scale, with workers starting at about $9 an hour. Once upon a time, the starting wage for such jobs was in the double digits. Nonetheless, Mayor Roger Matheny said that "this offers us job security and lets us know GM is going to be here for a long while."

Not necessarily. Other communities have showered tax breaks on GM and its partners, assuming they would create or at least retain jobs. They were wrong. Volvo-GM closed a jointly owned plant (GM was the minority partner) in Orrville, Ohio, in 1996--just seven years after the county cut property and inventory taxes in half. Some 400 jobs were lost. The two automakers moved operations to Pulaski County, Va., where millions of dollars more in economic incentives awaited.

In 1984 and 1988, Ypsilanti Township, Mich., granted 12-year tax abatements on $250 million worth of new equipment and machinery that GM installed in its Willow Run assembly plant. On its application for the second tax abatement, GM said no new jobs would be created but 4,900 existing jobs "will be retained as a result of the project." A GM executive reaffirmed the company's commitment at a township board meeting.

But in February 1992, GM announced it intended to close Willow Run and move production to Arlington, Texas, where it got a better deal. The township countered with a lawsuit, charging that the tax abatements created a binding obligation. A local judge agreed, accusing GM of "having lulled" the people of Ypsilanti and then trying to skip town. The state court of appeals reversed the decision and concluded that "hyperbole and puffery" in seeking tax breaks "does not necessarily create a promise."

In interviews with TIME, GM executives say they merely do what everyone else does. Moreover, they say, local and state governments often come calling on them. As a GM official explained, when Saturn was conceived, it was a clean sheet, a new type of plant representing a huge investment. Once it became publicly known what GM was planning, he said, "we received proposals from every state in the union except Hawaii and Alaska. We had file cabinets full of material from every state... Every one had to be responded to. It took on a life of its own."

Yet there had to be states that knew GM could not build there just for logistical reasons, he said. Nevertheless, government officials submitted formal proposals so they could tell their constituents they had at least tried. "[A politician] always wants to be perceived as someone who tried to bring home the bacon, even if the bacon doesn't arrive."

And that is where the real blame for corporate welfare rests.

As Ohio state senator Charles Horn, a persistent critic of tax abatements, put it when commenting on concessions granted GM, "We know companies are manipulative, but it's the nature of business to go after every dollar that's legally available. Don't place the blame on the company; place the blame on government. This is government's folly."

LEAN JOBS AT NEBRASKA BEEF

These workers start at about $8 an hour and may work their way up to $9 if they stick around for four years. Many don't: the turnover rate for the subsidized jobs is more than 50%

WHAT WAS PAID OUT

$22 million to $29 million in job, tax and investment credits, grants and other assorted subsidies

$2.5 million to train workers

HOW IT PAID OFF

Low-paying jobs. Because of the high turnover rate, the training money ran out in less than a year, so more than 200 replacement workers were never trained. Others continue to flee these grueling jobs

IN THE SHADOW OF MERCEDES

Kids in Vance, Ala., are part of a school district so hard up that it relies on portable classrooms. Nearby is Mercedes' new plant, put up with a $253 million package of incentives

WHAT WAS PAID OUT

$77.5 million for roads, water and sewer lines, and other infrastructure improvements

$92.1 million to acquire the site, build the plant and construct a training school

$83.6 million in training funds, tax rebates and other incentives

HOW IT PAID OFF

Crowded schools. For the Vance Elementary School, it's meant more portable classrooms--the school now has 17--with two a year being added to house the school's burgeoning enrollment

PHILADELPHIA NEW MATH: $323,000 TO BUY A $50,000 JOB

In 1997 the city and state gave incentives worth $307 million to Kvaerner ASA, a Norwegian global engineering and construction company, to reopen a portion of the defunct Philadelphia Naval Shipyard and employ 950 people.

WHAT WAS PAID OUT

Divide the $307 million by 950 jobs, and it turns out each job created cost local taxpayers $323,000.

WHEN IT WILL PAY OFF
Let's say the Philadelphia shipyard jobs pay, on average, $50,000. That would mean that each worker pays roughly $6,700 annually in local and state taxes. It will take more than 48 years of tax collections from the shipyard's employees to earn back the money first granted to create these jobs. And even that assumes that all 950 workers will relocate to Philadelphia from outside the city. In fact, of course, many of the workers will move from existing jobs within the city--where they already pay taxes.

LAID OFF AT GENERAL MOTORS

New York State officials leaped at the chance to help GM retool an existing plant in Tonawanda in 1996 to build new engines and generate jobs. Net effect: fewer jobs now than then

WHAT WAS PAID OUT
$16.9 million in tax exemptions, training grants, reduced borrowing charges and lower power costs from the state

$3 million in property- and sales-tax reductions from local governments

HOW IT PAID OFF
Lost jobs. The Tonawanda plant employed 3,800 workers in 1996. A GM spokesman said the work force today is about 3,600. State and local governments thus provided $99,000 in incentives for each job GM has eliminated

from TIME Magazine, 1998-Nov-30 (V152N22), from http://cgi.pathfinder.com/time/magazine/1998/dom/981130/special_report.corporat3a.html:

Five Ways Out

THERE ARE SOLUTIONS TO THE CORPORATE WELFARE MESS--BUT WHO GOES FIRST?

What's a mayor to do? A major employer wants to expand or build anew. Rather than simply doing so, the corporation stirs up a bidding war to see which city and state will pony up the most cash, loans and tax breaks in the form of economic incentives. If you're the mayor and the facility means jobs and income for your town, do you play hardball and risk losing the plant and the jobs? Or do you give in and hand out tax money, only to face a never-ending string of similar demands from others?

Right now it's not much of a debate: the mayors cave.

The eagerness with which many states and cities routinely cancel taxes and distribute free services and grants to corporations puts enormous pressure on every other public official to do the same--even those who don't want to.

TIME has found many public officials deeply upset at the ultimate cost of the giveaways to their communities. Inevitably, tax rebates to a selected few lead to higher taxes for others and to cutbacks in essential services.

Can anything be done to stop the inequities? Absolutely.

But first, forget about cooperative agreements among states to stop the war of incentives. They've been tried, and they don't work. In October 1991, New York City, New York State, New Jersey and Connecticut agreed that a series of costly bidding wars to attract corporations was ruinous for all concerned. The four governments signed what was described as a nonaggression pact. Less than a year later, the truce was in tatters. New Jersey fired the first shot; among its targets was the New York Mercantile Exchange, which it tried to entice across the Hudson to Jersey City. Piqued New York City officials groused that because of New Jersey's wooing, the city was forced to come up with an extra $30 million to keep the exchange in Manhattan.

Next, in January 1994, New Jersey's newly elected Governor, Christine Todd Whitman, and New York's new mayor, Rudolph Giuliani, both Republicans, promised to end the border war. "We're not interested in stealing from each other," Whitman said.

But then, in September of that year, in what a deputy of Giuliani's called a "shameless raid," Connecticut lured Swiss Bank Corp. from Manhattan to suburban Stamford with $120 million worth of incentives.

Today, seven years after the first cease-fire, there isn't even a pretense of a truce. The latest poker game revolves around the new home of the New York Stock Exchange. Now in cramped quarters on Wall Street, the exchange has hinted that cheaper New Jersey real estate looks awfully good to it. In a knee-jerk spasm, New York City and State offered $600 million in incentives--more than twice the amount ever offered to keep a company in New York--to keep the exchange in Manhattan.

Which brings us to:

Solution No. 1 for ending corporate welfare at the state and local level: the levying of a federal excise tax on incentives. Under this proposal, Congress would enact a law imposing a tax equal to the value of the economic incentives granted to a company. In other words, if New York City and State governments were to give $600 million to the New York Stock Exchange, the Federal Government would hit the stock exchange with a $600 million federal tax. Hence no more value to economic incentives. No more bidding wars among governments.

"You have to make the tax confiscatory, a 100% tax, to take away the incentive," says Arthur J. Rolnick, senior vice president of the Federal Reserve Bank of Minneapolis, Minn. "Then there's no reason for a company to come knocking at your door. Some [public officials] have criticized [this idea], saying, 'We don't want another tax.' And we tell them, 'This is a tax you'll never have to collect.'"

The Federal Government has the authority to impose such a tax under the commerce clause of the Constitution, which gives Congress the power "to regulate Commerce with foreign nations, and among the several states."

That doesn't mean it would be easy. There would be strong opposition from the corporate-welfare bureaucracy: the tens of thousands of economic-development specialists, consultants, lawyers, accountants, conference planners and others who earn their living by giving away taxpayer dollars. Accounting and consulting firms in particular, says Ohio State Senator Charles Horn, work "both sides of the fence." They help communities dream up incentive programs, then bring them clients to collect the incentives.

What happens if Congress lacks the will?

Solution No. 2 A lawsuit to have incentives declared unconstitutional. Legal scholars believe the practice violates the Constitution's commerce clause. Indeed, the Supreme Court has said as much in several cases. In 1977, for example, the court struck down a New York law that provided for lower taxes on securities transactions processed by brokers in New York. The state pleaded that it needed the tax break to keep brokerages around. The court didn't buy it.

Even groups that usually oppose federal oversight of local affairs are calling for it in this case. The nonpartisan John Locke Foundation, a libertarian think tank in Raleigh, N.C., is a case in point. "We are a sort of right-of-center conservative organization, and what we are basically arguing is that the Federal Government should intervene," says John Hood, president of the foundation, which is readying a federal lawsuit to challenge state subsidies as violations of interstate commerce.

Hood says it's personally "troublesome" for him to call for a federal solution, but he and others in the foundation have come to believe it's the only way to end state subsidies to favored businesses.

Corporate welfare at the state and local level would end if either the Locke Foundation's proposed lawsuit succeeded or Congress accepted the suggestion of the Minneapolis Federal Reserve's Rolnick and enacted an excise tax. But what about all the incentives the Federal Government passes out? Many members of Congress, after all, build their careers on government handouts to corporations, which add up to two weekly paychecks for every working person in America every year.

Solution No. 3 Creation of a special commission that would study federal programs and propose which should be scrapped. That list would go to Congress, which would be forced to vote either to kill or preserve the programs listed.

In 1997, Senator John McCain of Arizona, along with other Senators, introduced legislation calling for the creation of an independent federal commission to eliminate "unnecessary and inequitable federal subsidies" to private industry. Both Congress and the President would be required to act on the recommendations of the commission--either by accepting them or rejecting them. "Unless Congress is forced to act to eliminate programs, it will not," McCain noted when he introduced the bill. "Perhaps independent commissions are the only fair way to ensure that neither side is given an advantage to protect its...corporate pork."

Of course, any such effort will be greeted with stiff opposition from yet another entrenched bureaucracy. Those are the agencies, departments and special-interest groups that profit from the existing system. There would be a spirited fight led by large corporations to preserve the Exim Bank, the Overseas Private Investment Corp. and the Foreign Sales Corporations, to name just three.

Solution No. 4 Shut off the flow of low-cost loans from the Department of Housing and Urban Development that have helped fuel the competition to snag companies. These loans date from the Housing and Community Development Act of 1974 and were aimed at "eliminating slums and blight." Today, TIME has found, HUD loans help bankroll such projects as a waterfront restaurant in Jacksonville, Fla. (it later went out of business), a downtown hotel in Philadelphia and an upscale fashion retailer in Spokane, Wash. In that case, a $24 million HUD loan arranged by the city of Spokane will go to construct a new store and enlarge a parking garage for Nordstrom Inc.

And if these four solutions are rejected?

Solution No. 5 is rooted in what has become the American way of late: sue. That's the course advocated by Dwight D. Brannon, a Dayton, Ohio, lawyer, who is suing state and local officials and a onetime Dayton-based company on behalf of its former workers.

The company is Hobart Corp., part of an international conglomerate with sales of $2.4 billion in 1997. Hobart produces commercial equipment for food preparation. Ever since the Great Depression, the company had operated a plant in Dayton. But in 1995, Hobart pulled up stakes and moved 30 miles to the north, to Piqua, Ohio, which offered $2 million in incentives. In July, the company informed its 66 hourly employees in Dayton, many of whom had worked at the plant for years--their average age was 52--that their jobs would be terminated in three days. According to the suit, Hobart staffed the new location with part-time workers--average age 34--from a temporary firm.

During a hearing in the lawsuit pending in U.S. District Court in Dayton, the company's lawyer explained it this way: "Every action [Hobart] has taken is motivated by sound economic or operational rationale."

Exactly. And until governments figure out a way to end the practice, corporate welfare will flourish.