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The Level Playing Field

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U.S. Postal Service competitors have long asserted that the agency's advantages deprive them of a level playing field. As Nye Stevens says in his Congressional Research Service Issue Brief of January 14, 2005, "The Postal Service pays no federal, state, or local taxes on its income, sales, purchases, or property. Unlike private sector companies, it is immune from most forms of regulation, such as zoning, land use restrictions, motor vehicle registration, parking tickets, and antitrust. It is also able to borrow money at the lowest possible rate because it does so through the U.S. Treasury."

Yet this tells only one side of the story. In other respects, the Postal Service operates at a disadvantage.

-No private company is constrained from offering adequate salaries, benefits, and incentives to its board and executives.

-No private company is required by law, as is the USPS, to have its employees' wages set by arbitrators, or under threat of binding arbitration.

-Unlike its private competitors, USPS employee pension and health benefits are set by Congress and are not subject to collective bargaining.

-No private company is required by law to credit military service in computing pension benefits; federal agencies are required to do so, but except for the USPS, the Treasury pays the bills.

-No private company is required by law to provide health benefits for retirees; any such benefits granted are voluntary or result from collective bargaining.

-No private company has the limitations on supplies, services, real estate, and transportation contracting that are imposed on the USPS (e.g., Javits-Wagner-O'Day, Randolph-Sheppard, Walsh-Healy, Davis-Bacon)

–No private company is required by law to charge nonprofit customers less than its business or individual customers for identical services.

–No private company is required by law to provide universal service to every business and household; private companies can select target areas and service levels.

–USPS’ competitors offer new services, modify current services, and eliminate services as they see fit; the USPS requires a protracted regulatory proceeding and Postal Rate Commission permission before it can do so.

–Private companies adjust prices on short notice without regulatory review; USPS rate changes usually take 16-18 months.

–USPS’ competitors offer special deals and low contract rates to selected customers without regulatory oversight; the USPS can do so only if approved by the PRC after proceedings in which competitors may object.

–Private companies and their associations lobby and contribute funds to Congressional supporters; USPS competitors are active intervenors in PRC rate cases.

–Private companies, unlike the USPS, may close or merge facilities without legal restrictions and political resistance.

–Private companies are not legislatively constrained from obtaining investment capital from any legitimate source; the USPS is required to break even and has limited borrowing authority.

–Private companies often negotiate tax exemptions, free land, and zoning exemptions. James Surowiecki notes that “With tax breaks, cheap loans, and outright giveaways, state and local communities hand out almost fifty billion dollars in incentives every year.” Furthermore, Surowiecki says, these incentives don’t always work and are “fertile ground for cronyism and political favoritism.” (New Yorker, p. 40, 12-03-04.)

In which direction is the playing field tilted?

Given its social and economic importance (9,000,000 jobs depend on it one way or another), the public's misconceptions of the Postal Service are surprising. Most people assume it is supported by taxes; it is not. It operates on revenues from customers. Some believe, on the other hand, that it has been privatized, and is a business. It is not. It is a self-supporting government agency. Then there is the widespread view that the price of stamps has climbed out of sight. Not true. In 1971, when the old Post Office Department was reformed into the U.S. Postal Service, a first-class stamp cost eight cents. Today, taking inflation into account, it costs 7.8 cents.

The Postal Service has made mistakes of commission and omission, and is a fair target for criticism. Many mailers are disappointed, for example, by the agency's failure to take a clear, public position on the postal reform bills pending in Congress. These bills increase the power and reach of the Postal Rate Commission. It would involve that regulatory body in such public policy questions as universal service, the monopoly, and mailbox access, thus further restricting the already limited functions of the postal Board of Governors and the Postmaster General.

On the other hand, the Postal Service has cut tens of thousands of jobs without layoffs, held rates steady, and raised service levels. At the least, the men and women who have achieved these results deserve both a level playing field and better public understanding.

THE FINANCIAL PAGE
IT PAYS TO STAY

In the late nineties, the city of Toledo, Ohio, faced a crisis. DaimlerChrysler, which ran a Jeep factory there, announced plans to build a new plant, but offered no guarantee that it would be built in Toledo. So the city and the state came courting. They promised Daimler a ten-year exemption from all property taxes, offered hundreds of millions of dollars in tax credits, and bought out eighty-three homes and sixteen small businesses, in order to give the company more land. Crisis averted: Daimler is still building Jeeps in Toledo.

This arrangement, while extraordinarily generous, is fairly typical. Across the country, cities and states routinely lavish on companies what economists call "location-based incentives." No one outside of Ohio would have paid Toledo's largesse much mind had it not been for a surprising development: a few months ago, the Sixth Circuit Court of Appeals, in Cincinnati, found that Daimler's tax credits in Toledo were unconstitutional. (The Court ruled that the credits interfered with interstate commerce, which only Congress has the power to regulate.) Months, or years, of appeals lie ahead, but, for the moment at least, much of what we know as corporate welfare may be technically illegal.

Thirty years ago, such news wouldn't have meant much. Cities and states used to lure new businesses the old-fashioned way: cheap labor, low crime rates, good schools, better country clubs. Beginning in the seventies, though, the combination of stagflation, increased global competition, and greater corporate mobility turned local governments into rival suitors showering companies with the Chamber of Commerce equivalents of flowers and chocolates. With tax breaks, cheap loans, and outright giveaways, states and local communities hand out almost fifty billion dollars in incentives every year. The logic is simple enough: businesses create jobs, so governments should do whatever it takes to attract them. And even though tax breaks are rarely the determining factor in where companies choose to go—Irvine, Cali-

fornia, for example, has become an auto-industry hub without offering any tax breaks at all—companies would be foolish to turn down free money. So they have mastered the location-shopping racket, pitting cities against each other in search of a sweetheart deal.

The cities are often easy marks. The classic example, of course, is the new sports stadium: a team threatens to leave, and the home town panics, spending hundreds of millions of dollars on a white elephant. But it happens with other businesses as well. New York City has been one of the worst offenders, especially under former Mayor Rudolph Giuliani. It gave hundreds of millions of dollars in tax breaks to firms that



weren't going anywhere; most infamously, Giuliani committed the city to subsidizing a new, billion-dollar headquarters for the New York Stock Exchange, amid implausible threats that it would move to New Jersey. (Michael Bloomberg quashed that plan upon taking office. He also renounced incentives that he'd been granted to keep his own company's headquarters in New York.) What's more, corporate welfare is fertile ground for cronyism and political favoritism.

Obviously, cities have reason to dangle a lure. A recent study by Enrico Moretti, of U.C. Berkeley, and Michael Greenstone, of M.I.T., which compared cities that had competed against each other for new plants, found that the

winners generally had benefitted—they had slightly higher tax revenues and creased property values. The problem is that though the city with the new plant may be better off, collectively we are worse off, because the tax money spent on corporate welfare could otherwise be used for more productive uses, such as education and infrastructure. For the American economy, it doesn't matter whether Daimler builds Jeeps in Toledo or Kazoo; whatever one city spends on the other is money thrown away.

All public spending distributes benefits unevenly, but the sheer capriciousness of the incentive process makes inequity worse. Among the plaintiffs in the Toledo case were three of the city's small businesses, which were understandably annoyed at seeing their proceeds padding Daimler's profits. The corporate-welfare system encourages state and local governments to create an uneven playing field and puts them in the position of deciding which businesses deserve a leg up—in effect, making big bets with public money. When these bets backfire, it can hurt. Last year, Indianapolis lost more than a thousand jobs when United Airlines shut down its maintenance center for which the city and the state had pitched in hundreds of millions of dollars. And in a small town of Galesburg, Illinois, spending a decade plying Maytag with incentives only to watch the company shut down its refrigerator plant and move production to Mexico. The local district attorney has threatened to sue Maytag, but I've been opposed by Galesburgers who fear scaring off other businesses.

People in local government know that they should kick the habit. In the early nineties, at a meeting in Washington, D.C., the nation's governors pledged to invest in "improvements to the general economic climate" rather than "subsidies for individual projects and companies." But that pledge didn't last. States and cities are trapped in a prisoner's dilemma: as long as one town can woo a corporation with baubles and tax breaks, every town has to be willing to do so. That Toledo decision may be their only hope. The business of America shouldn't be subsidizing business.

—James Surowiecki