THE SMALL-MART REVOLUTION

HOW LOCAL BUSINESSES ARE BEATING THE GLOBAL COMPETITION

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FOREWORD BY BILL McKIBBEN

An Excerpt From

The Small-Mart Revolution: How Local Businesses Are Beating the Global Competition

by Michael H. Shuman

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WRECKONOMICS

Jack J. Shuman, my father, never had it easy, but compared to his parents, immigrants from Russia who had to cope with Czarist oppression, exhausting ocean voyages (two, in my grandmother's case), anti-Semitism, and the Great Depression, life was sweet. After World War II, he completed a master's degree in mechanical engineering and soon found a job working for Western Electric, the major parts and equipment supplier for the nation's telephone system. He worked his entire professional life for Ma Bell and even wound up retiring a few years earlier than planned after a court-ordered breakup of the telecom monopoly in 1984. The deal was simple: work hard and stick with the company, and we'll give you a decent middle-class salary for the rest of your life with periodic raises, decent health care, and a generous pension. The family settled in North Massapequa, New York, where the public schools were good, tract housing affordable, and mass transit to Manhattan fast and reliable.

Today, this lifestyle seems so alien that it might as well have existed in the Middle Ages. Almost no one expects to hold a job for a lifetime anymore. Companies hire and fire employees at will, and even top executives pack parachutes and expect to bail every few years. Workers, even those few still represented by a union, know that they are increasingly on their own and that they must be prepared to move nomad-like from job to job. For most Americans weekly take-home pay in wages, once inflation is factored out, has grown by remarkably little over the past generation.[1] Employer health care plans are being pruned every year and increasingly charged directly to workers, and more than forty-six million Americans lack any health insurance whatsoever.[2] Company pension plans have gotten smaller and less reliable, requiring Americans to save what they can through individual retirement accounts and other private vehicles. Taxes seem continually to go up as public services go down. Mass transit systems and public schools are a mess—where I live, in the District of Columbia, public schools rank dead last in the country, and even the best of the lot have their occasional playground shootings—pushing middle-class families to exhaust their savings on private schools.

The American Dream is fast shriveling up. My family's security is far shakier than my parents', and I fear what lies ahead for my children.

I suspect I am not alone. How about you? How secure do you feel? Are you satisfied with your job, your health care coverage, your family's well-being, your schools, your community? What does the future portend for your children?

One of the central paradoxes of contemporary American life is that despite so much wealth and progress, we have never been so insecure. Millions of middle-class Americans have taken advantage of low interest rates and borrowed their way to short-term stability, but we know that sooner or later this will come crashing down. The trigger could be a bursting real estate bubble, the collapse of the U.S. dollar, high inflation driven by skyrocketing energy prices, a dirty bomb set off by terrorists—or all of the above. Many of us are no further than one layoff, one major illness, or one national calamity away from plunging into a personal economic tailspin.

The causes underlying our insecurities are many and varied, but there is no question that a primary culprit is a set of forces we have come to call globalization. The United States emerged from World War II as the most powerful economy on the planet, its corporations the dominant players in every product line imaginable, from Lincoln Continentals to Sunbeam toasters, from Coca-Cola to Chase Manhattan Bank. One by one, however, other nations caught up: first the Western Europeans and the Japanese; then the "Asian Tigers" like South Korea, Malaysia, and Singapore; and now the population giants, China and India. Competition has forced American companies to become brutally attentive to the bottom line, and the luxuries of job security, health care, and pensions once enjoyed by our workers have been steadily whittled away, a process further hastened by those ideologically disposed toward dismantling organized labor and other public protections of worker rights. (The executives of many of these companies have never had it better, but that's another story.)

One important way U.S. companies have decided to become more globally competitive is by relocating offices, factories, and headquarters to countries where the costs of production are lower. Scarcely a month goes by when we don't read in the local papers that a firm employing hundreds, even thousands, of our neighbors is moving overseas. The departure of these old stalwarts of our community has been devastating, leaving craters in our local economies that once depended on them. The sage advice of economists and policy experts to communities has been to redouble our efforts to hold on to and lure back global business. Anxious to bring any new jobs to counter the loss of old ones, communities have enthusiastically welcomed chain stores, big-box malls, airports, tourist traps, and casinos, seemingly unconcerned that these new firms are coming with lower wages, part-time jobs, no health care, and flaky pensions.

Insecurity, we are told, is a necessary price for prosperity. *New York Times* columnist Thomas Friedman insists that globalization is "making it possible for . . . corporations to reach farther, faster, cheaper, and deeper around the world" and is fostering "a flowering of both wealth and technological innovation the likes of which the world has never before seen."[3] Similarly, local economic developers, who see their mission as orchestrating private and public decisions to maximize local business activity, have looked at the reality of globalization and concluded that *there is no alternative* (TINA). Change is painful, but the new mission of a community, as they see it, is to take full advantage of the cornucopia of global opportunities while minimizing the regrettable side effects. And that's why we must embrace TINA.

The Iron Lady

I have plenty critical to say about TINA, but let me try, at least in this one section, to play the devil's advocate and state its case as dispassionately as possible. It goes something like this: In the new go-go global economy, every community must run faster to become more competitive. The best way to do this, according to the early economist

David Ricardo in his theory of comparative advantage, is to find a handful of industries in which to specialize, and to market world-class products. Exports from our best industries, like prescription drugs from New Jersey or country music from Tennessee, bring new earnings that we can then spend on supplies, parts, and technology for related industries. Clusters of similar firms then coalesce, and their constituent businesses spur one another to innovate, become more productive, and strengthen a community's global niche.

As competition from every nook and cranny of the planet intensifies, the most successful enterprises, the eight-hundred-pound gorillas anchoring and driving these clusters, will be the most globally minded, ambitious, and nimble, and the scale of these firms—the Microsofts, the Mercks, the Bank of Americas—is necessarily large. They may not need to have an office in every country or a million employees, but they do require a critical mass of finance, technology, and talent that no small business can possibly muster. If you live in a community lucky enough to have such a firm already, the priority is to retain it. The vast majority of communities, however, must lure them to anchor new clusters. And if your community can't snare a firm's global headquarters, then it should at least go for a major branch office, a factory, a warehouse, a service center, or, heck, even a sales outlet will do.

Economic developers sometimes distinguish between businesses of primary and secondary importance. They consider manufacturing primary because historically it has provided more jobs that are higher paying and longer lasting. The other sectors of the economy—like food, energy, education, and various business and household services—are seen as secondary since they seem to grow around the primary sectors.

A good example of this logic is South Carolina's decision, more than a decade ago, to pony up $130 million to attract a two-thousand-employee automobile plant owned by BMW. Some years after this deal was consummated, BMW hired the Moore School of Business at the University of South Carolina to perform an "independent" evaluation of the deal. "Undeniably," the researchers concluded, "the BMW location decision represented a major achievement in South Carolina's promotion of economic development."[4] By their calculations the plant has led to the creation of 16,600 jobs in the state and $4.1 billion in additional annual output.

Since economic developers frequently cite this deal to show how beneficial TINA subsidies can be, we will examine the study in a little more detail shortly. For now, let's just observe the logic of TINA thinking. The Moore School explains how the deal flowed from the rigorous application of the principles of mainstream economic development: "Economic theory clearly states that regional growth and development depends on developing an export base." Why exports? Because "manufacturing operations bring new money flowing into the state from outside. . . . The money is not recycled from one sector of the state's economy to another—*it is almost all an economic gain for the state's citizens*—providing money that can be used to purchase goods and services from other regions and countries."[5]

A decade ago economic developers saw "incentives" like those South Carolina offered as their most important tools for expanding export businesses. These took many forms, including grants, low-interest loans, loan guarantees, industrial development bonds, tax breaks, zoning preferences, training programs, new streets and sewers, you name it. But economic development has increasingly focused on creating a favorable "business climate." "Regulatory reform" seeks to reduce burdensome red tape, which means weakening public standards related to health, labor, environmental protection, and product safety. "Infrastructure" initiatives put in place roads, utilities, airports, telecommunications, and high-speed Internet facilities that can serve export-focused firms. "Workforce development" seeks to mobilize education and employment systems to provide higher-quality employees for these companies. And a diverse assortment of land-use tools like industrial parks, enterprise and empowerment zones, downtown development districts, and historic preservation create magnets for enterprises and consumers alike.

While the primary drivers of a TINA economy are big, globally oriented businesses, smaller businesses are important as partners in a cluster or as secondary suppliers of goods and services purchased by workers employed in that cluster. That's why TINA loves LOIS, locally owned and import-substituting businesses. Every chamber of commerce praises small businesses, mindful that they create the vast majority of new jobs in the community (and also loyally contribute most of the chamber dues). Every economic developer waxes eloquent that small businesses serve as the backbone of the local economy. Every politician rushes for a photo op with the most successful local entrepreneurs. The International Economic Development Council (IEDC), in its primer on economic development, begins: "Even though working with existing businesses and assisting their growth never makes headlines, local firms already have a local commitment and are a far more reliable method of job growth than the headline-grabbing attraction efforts."[6]

"Through economic development activities," the IEDC handbook continues, "existing businesses are nurtured and expanded, new businesses are attracted to an area, and new enterprises are created." Like children in a healthy family, all businesses are to be loved equally because "each of these activities leads to job creation, an increase to the tax base, and improvement of the overall quality of life within a community—all adding to the wealth of the community."[7]

TINA advocates cheer for all business: big and small, new and old, local and nonlocal, clean and dirty, free market or prison, anything that produces jobs. But to understand the real contours of the economic development politics of TINA advocates, we must look not at what they say but at what they do.

Wreckonomics 101

For more than fifty years the Maytag factory in Galesburg, Illinois, manufactured refrigerators.[8] No longer. In 2004 the company gave pink slips to its last sixteen hundred employees and moved operations to Mexico. When the first rumblings about the departure were heard, economic developers in Galesburg desperately mobilized $8.6 million from local sales taxes and state grants to retrofit the plant. They abated property taxes for ten years that otherwise would have gone to public schools. Maytag did stick around a bit longer, but ultimately the lure of cheap labor south of the border was too great. The granddaddy of the incentives package, Jeff Klinck, now admits: "Maytag's leaving town has devastated our community."[9]

Fifteen hundred miles to the southeast, economic developers in Putnam County, Florida, gave $4.5 million in cash and tax breaks to Sykes Enterprises to build a call center.[10] Sykes came, thanked the community for the gift, operated for five years, then moved its center overseas. Timothy Keyser, a local lawyer, says, "It's universal blackmail out there, with corporations all playing the same game."[11]

Economic developers in Indiana paid $320 million in taxpayer money to United Airlines to build a state-of-the-art aircraft maintenance center at the Indianapolis International Airport. The company had promised to employ five thousand well-paid mechanics and invest $500 million of its own capital, but in the end the center never employed more than twenty-five hundred.[12] In 2003, having not made good on even half of its promised investment, United shut down the center and outsourced the work to cheaper private contractors down South.

According to an article in the *St. Petersburg Times*, economic developers in Florida pumped $49 million of tax breaks and gifts into a microchip plant originally run by AT&T after it threatened to move to Spain. Today, employment is about a third of what it was in the year 2000, and much of the equipment in the plant has already been shipped overseas. All of Florida's economic development programs between 2004 and 2005 cost the state government $900 million. That same article astutely observed: "The nearly empty factory could be a symbol for the flaws that beset what government and business leaders call 'economic development.'"[13]

According to Good Jobs First, a small think tank dedicated to identifying and eliminating corporate pork, Wal-Mart also has received more than $1 billion in state and local government support over the last ten years in 244 separate deals.[14] Nearly a dozen communities paid from $19 to 46 million each to attract one of the world's wealthiest companies to set up a distribution center.

There are literally hundreds of these stories from every part of the United States and they all are practically identical.[15] Convinced that TINA firms will make or break a region, economic developers insist on lavishing them with taxpayer money to persuade them to come or to stay. Alan Peters, an urban planning professor at the University of Iowa who has studied these deals, says, "It seems like almost every state is giving away grandmother, grandfather, the family jewels, you name it, everything."[16]

And for what? The company rarely fulfills its pledges entirely, and sometimes not at all, and sooner or later it moves elsewhere. Some state and local officials have learned by now that these deals are likely to be losers, but economic developers ominously warn—*there is no alternative*. Peters and his colleague, Peter Fisher, estimate that public payments to TINA, nearly all made in back rooms with no public scrutiny, now cost the American taxpayer an estimated $50 billion per year.[17] And that's just state and local money.

Many economic developers respond that they've learned from the mistakes of the past and no longer place so much emphasis on these deals. Nonsense. Eye-popping bribes in the range of $10,000 to $30,000 per promised job that were paid to attract auto manufacturers in the early 1980s now seem modest.[18] Alabama, South Carolina, Michigan, and Mississippi spent from $59,000 to $193,000 per job to attract or retain various auto plants in the 1990s.[19] In the mid-1990s Kentucky lavished two Canadian steel producers with $350,000 per job. Governor Pataki in New York recently gave IBM $500,000 per job as an inducement not to move out of the state. Governor Jeb Bush of Florida dispensed $1,000,000 per job to attract the Scripps Biological Research Center. Governor Gary Locke of Washington paid a whopping $2,500,000 per job to prevent Boeing from removing the remnants of its operations in the state (Boeing management had already fled to Chicago).[20] The anecdotal evidence suggests that the bidding wars for TINA businesses are actually escalating.

Governor Joseph E. Kernan of Indiana regrets what happened with United Airlines. He laments that one locality snatching jobs from another does nothing to improve the national economy and concedes that these subsidies probably don't have very much influence on TINA business decisions anyway. "But," he adds, "Indiana, like virtually every other state, is not going to unilaterally disarm."[21] After all, *there is no alternative*.

Elephant-Mouse Casserole

Contrasting the balanced rhetoric of economic developers with their singular focus on TINA is like trying to walk straight in a hallway of fun-house mirrors. Their even-handedness with respect to large and small business can be compared to the even-handedness of cooks baking a proverbial elephant-mouse casserole. Add one elephant and one mouse, mix vigorously, then savor the diverse flavors. Not. Just as elephant-mouse casserole tastes pretty much like pure elephant, TINA-LOIS economic development looks pretty much like pure TINA.

While no national studies have sorted out exactly what percent of economic development monies are going to TINA versus LOIS, common sense suggests that nearly all of it is going to TINA. The purpose of the $50 billion taxpayers spend each year is to attract or hold on to companies that are, by definition, not anchored to the community, not locally owned, not focused on local markets. If there were similar bags of money being distributed to LOIS businesses, then maybe they would not be competitively disadvantaged. In fact, the playing field is tilted like a double black diamond ski slope against LOIS. Economic developers apparently assume that LOIS businesses can never be major manufacturers or the primary drivers of a local economy and that they can never anchor a cluster. Moreover, because the long-term commitment and loyalty of LOIS businesses to a community can be taken for granted, the locals get very few incentives at all. Sure, a few programs here and there are deployed to help small business with microloans, training, incubation, and so forth, but even these often favor TINA wannabes.

But isn't there at least a modest case to be made for TINA subsidies? Wasting money on deals that don't go well may make no sense, but that's twenty-twenty hindsight. Aren't there examples of some TINA firms that have taken the money, stayed, and contributed to the economy and made the risk of the incentives package worth it? What about South Carolina's investment of $130 million in BMW? What possible LOIS investment could produce more than sixteen thousand jobs and $4.1 billion in additional annual output? Perhaps if we could just improve the reliability of TINA deals by doling out the subsidies slowly as promises are met (and not in advance), by making the companies commit in writing to stay for a reasonable length of time, or by punishing subsidy abusers with treble damages for breaking an agreement.

This kinder, gentler vision of TINA still doesn't make much sense. Subsidies beyond $480,000 per job—like those recently paid out by Florida, Washington, and New York—can *never* be justified. At that point, state and local government might as well put the money in a low-risk U.S. savings bond and pay a household a living wage in perpetuity, without ever needing to mess around with the risky intermediary of a corporation.[22] Because so little of the earnings of TINA companies is retained by host communities (as detailed in chapter 2), the economic benefits of just leaving the annual proceeds in the hands of a beneficiary family may well be higher.

But what about smaller subsidies like those to BMW? According to the Moore School study, government gifts came in at a modest $81,479 per job (in 2001 dollars). Best I can tell, no one has critically reviewed the Moore School's work, and, in fact, a comprehensive review is almost impossible because much of the data analyzed (what the purchasing patterns of BMW are, for example) is proprietary. But here are a few reasons to treat its claims with skepticism.

First, consider what gets counted. The $130 million in subsidies magically materialize and over the next seven years produce jobs and wealth. But where did the $130 million come from? What kinds of jobs might have been produced had that same money been invested in schools seven years earlier? What would have been the outcome had that money been given to the state's most promising small businesses? What if it had stayed in consumers' pockets? These and a thousand alternative scenarios are what economists call *opportunity costs*. And like almost all economic developers, the Moore School ducks the issue.

Here's what we do know: According to another study by Clemson University's Strom Thurmond Institute, lost state and local taxes from deals like these will cost South Carolinians $2.7 billion over a decade.[23] Some of the shortfall has been made up with increased taxes on sales, telephones, restaurants, road uses, and vehicle and boat registrations—and, stunningly, with increased taxes on LOIS businesses. According to Alfred W. Stuart, a geography professor at the University of North Carolina at Charlotte, who surveyed local businesspeople affected by the BMW plant for the Greenville Chamber of Commerce, "Many of them were really pissed off about it. . . . They said, 'I've been in business for years, been paying taxes, and they're not doing anything for me. And now they're shelling out for this German company.'"[24] "It's a feeding frenzy," complains Mat Self, chair of Greenwood Mills, an old South Carolina textile manufacturer. "You've got $57 billion in infrastructure needs in the state (according to a state legislative commission), and you're reducing taxes?"[25]

A few years earlier, at the annual convention of the American Council of Chamber of Commerce Executives, I debated Wayne Sterling, one of the architects of the BMW deal, who recently had moved to head Virginia's Public/Private Partnership, with the hopes of landing for Virginia as big a deal as he had for South Carolina. I asked him whether he or anyone else had ever examined the opportunity costs and he fumed no, adding that it should be obvious that small businesses could never produce these kinds of benefits.

In fact, it's not obvious at all. At the heart of the Moore School analysis is an economic model called the Minnesota IMPLAN System. It is based on the assumption that if you enter data on the number of new jobs or additional payroll going into a local economy, you can then predict two things coming out. One is the number of *indirect* jobs generated by local purchasing. The other is the number of *induced* jobs generated by the expenditures of the new employees (both direct and indirect). The Moore School analysis basically said that BMW employed 4,300 people in 2002, which created 6,712 indirect jobs and 5,652 induced jobs.

There are three explanations of these superficially impressive results. The first is that BMW pays higher salaries than are typical in South Carolina. But many local businesses pay higher salaries, too. Had South Carolina announced that $130 million in subsidies would be available to *any* firm that pays average wages above, say, twenty-five dollars per hour, there's little doubt that hundreds of small businesses would have applied.

A second key to the success of the BMW deal was that the company is now buying inputs locally. The Moore School study pointed out that "27 new automotive suppliers have clustered close to the Greer-area plant, while 6 additional pre-existing local suppliers have obtained supply contracts." Maximizing local linkages, which is a key characteristic of a successful cluster, is a goal for nearly all economic development projects. South Carolina lucked out here, because there is a substantial body of evidence (reviewed in the next chapter) that for every dollar of operation, TINA businesses spend less locally than LOIS firms do. Had the new suppliers not located in the state, or had they located in the neighboring states of North Carolina or Virginia, the indirect jobs would have been substantially fewer.

The third reason the BMW deal performed well was that the company stuck around and grew. Initially the company promised only two thousand jobs. The company and many locals liked the deal, and BMW gradually expanded its South Carolina operations. But it has only been a decade. Will BMW be in South Carolina for twenty, thirty, or fifty years? Or will it—like AT&T, Sykes, and United—decide to move on? Who knows? The important point is that *the decision is no longer in South Carolina's hands*. As a publicly traded company, BMW's decisions about which plants to open and close will be driven 100 percent by its bottom line, not South Carolina's. And for the next generation, every time BMW hints about departing, South Carolina will have to dig up fresh incentives. What are the projected costs of these? If BMW departs, what will be the economic, environmental, or social costs? How much will South Carolina have to pay to the workers in unemployment and welfare? How will it cope with communities whose tax bases are decimated and no longer can pay for their schools, police, or basic services? A glimpse at Detroit today—with vast tracts of abandoned, burned-out buildings that are all that remain of a once-vibrant automobile-manufacturing sector—offers plausible clues to what South Carolina could face down the road.

The best that can be said about TINA deals like South Carolina's with BMW are that they represent a roll of the dice. If everything goes right, if the incentives don't break the bank, if the company grows, if it buys from local suppliers, if it sticks around for a generation or two, if it diversifies the region's economy before it departs, then, yes, a TINA subsidy can pay reasonable dividends. But the more likely fate is that which befalls any compulsive gambler—the poorhouse.

Moreover, to continue the casino analogy: If you can win without laying down a bet, why gamble at all? What evidence does the Moore School study offer that the subsidy had anything to do with BMW's decision to site the plant in South Carolina in the first place? Well, none. The authors observe that "the state has a set of fundamental assets" including a qualified work force, accessible ports, roads, and railroads, "public-private, pro-business partnerships," and ready access to BMW's primary U.S. markets.[26] On top of that "there are low unionization and labor costs in South Carolina relative to other possible sites." Hmmm, so what exactly was the role of the subsidy? "*Although not the fundamental location determinant,*" demurs the Moore School study, "incentives add to the attractiveness of a site. . . . All recent automotive plant opening have been supported by state incentives." In other words, South Carolina had to do it, because *there is no alternative*.

As it turns out, the bulk of the evidence suggests that TINA projects almost always will proceed without the incentives. Even very large subsidies, compared to ongoing costs of a TINA firm's operations, represent a tiny portion of the bottom line. When Deloitte & Touche, a consulting firm with expertise in helping businesses with their location decisions, analyzed five years of data to weigh the importance of various factors, it found that tax breaks, one of the principal subsidy tools, were a "low priority" and had "minimum cost impact."[27] What really matters are the basics of a given location, such as the costs and talent of the workforce, the presence of shipping facilities, the proximity to markets, and the overall business friendliness of a community (more on this, shortly). Incentives really only come into play when two locations seem roughly equal in their fundamentals, which is rarely the case. Even then, a jurisdiction playing fast and loose with incentives may also be revealing its profligacy with public funds and its unreliability in delivering basic public services. Reviewing all the literature on incentives, Peters and Fisher, the two University of Iowa professors, conclude that "the standard justifications given for incentive policy by state and local officials, politicians, and many academics are, at best, poorly supported by the evidence."[28]

Some economic developers defend subsidies by saying that there are simply not enough job-creating opportunities available from LOIS businesses. In rural or inner-city communities, where there are few businesses at all, this seems at least superficially true. But, then again, how can anyone possibly know? Was a public request for proposals—known as an "RFP process"—announcing that $1 million in business support is available and that the government is now taking bids to see who can provide the most jobs for the fewest dollars, ever formally published in the newspaper? Were the LOIS possibilities ever systematically compared with the TINA possibilities? Economic developers actually have no idea what kinds of LOIS proposals and plans might be out there. Proponents of TINA, who laud the virtues of free markets, appear unwilling to subject their theories and pet projects to real market tests.

The final refuge for sloppy economic development thinking may be the renewed assertion, little more, that public policy must be supportive of all jobs. If we support every LOIS job possible, doesn't it still make sense to stimulate TINA jobs? Sure, but only if you've first exhausted the full universe of LOIS possibilities. And without a true bidding process, you cannot possibly know whether this is true.

The study of economics is largely about how to manage scarcity. How can society combine limited numbers of workers, dollars, resources, buildings, gizmos, and ideas in a way that will produce the greatest happiness for the greatest number of people? It is astonishing when economic developers simply claim that they wish to support all kinds of business, equally, without ever setting priorities. Like every other human activity, economic development requires the careful allocation of finite time, energy, and money, especially in poor communities where development is most urgently needed. And the decision to favor TINA businesses, hidden in a rhetorical fog of fairness and served in elephant-mouse casserole, means that LOIS gets unfairly disadvantaged.

The more plausible explanation of the prioritization of TINA can be found not in economics but in politics. Presenting the public with one deal providing one thousand jobs seems to have greater payoffs than presenting one hundred deals with ten jobs each. Politicians would rather be photographed cutting a ribbon once on page A-1 than having to schlep around to a hundred places, on a hundred different days, always for page D-6 announcements in the business section. Economic developers also can more easily prove their worth—and justify getting a nice raise and budget bump—with one large, well-publicized deal. Their gain, however, is the community's loss.

TINA's Reign of Error

The above criticisms of TINA suggest that the worst these economic developers can be accused of is wasting money on the wrong kinds of businesses and making it more difficult for small businesses to compete. But inefficiency, bias, and waste are hardly the only malfeasances of those who promote the TINA model. The deeper problem is that economic developers are systematically undermining the possibilities for establishing sustainable and prosperous communities.

The core difference between a TINA business and a LOIS business is this: A TINA business is much more likely to move to cut costs, increase sales, and maximize profits. The roots of LOIS businesses in the community run deeper, the costs of departing are greater, and they therefore tend to stay put.[29] While there are some trends that ought to persuade TINA managers not to "go offshore" (see chapter 3), most today see only competitive advantages in leaving the United States. Put yourself in the shoes of a corporate captain, and you too might dismiss all the old reasons for sticking around:

- *Do you depend on a special technology only available in the United States?* The old argument justifying higher wages for American workers was that our technology made them more productive. Now, however, you can easily move the same technology to any factory location where labor is cheaper because, increasingly, the technology is not heavy equipment or machinery but the electrons of software, which can be transported halfway around the planet almost instantly as an attachment to an email.
- *Is it too expensive to tear down your existing factory and build a new one?* The capital costs of most businesses are becoming only a tiny fraction of the overall expense of doing business. And if another community is willing to provide you land and buildings for free, why hesitate? Plus, the U.S. business tax code allows you to write off the cost of moving and then treats new taxes you might have to pay to a foreign country as a tax credit. Heck, moving might even result in Uncle Sam paying you!
- *But isn't our work force too skilled, too unique, too important to abandon?* Forget about it. As Thomas Friedman argues, millions of highly educated Indians and Chinese are prepared to take over your job for a tiny fraction of your current wage.[30]

It may take years for TINA managers to understand the full risks and costs of leaving the United States, so for the moment, the pull toward mobility dominates their imagination The mobility mindset means that the odds of a community rolling the incentives dice just right, of achieving even the kind of qualified success South Carolina achieved with BMW, are getting smaller every day. If TINA business support means that the enlarged and empowered firms move elsewhere in the world, then the entire universe of “economic development” can be thought of simply as extravagant gifts to the global TINA establishment at the expense of community.

But if we’re *really* generous with our business support year after year, TINA advocates might counter, why would beneficiary businesses possibly leave? Because every community is playing this game, and someone, somewhere, is prepared to up the ante. We’re in the midst of a subsidy arms race in which every community is ultimately a loser. The only possible “winners” are those communities with the worst labor and environmental standards. Communities competing to provide the best business climate are increasingly inclined to bust unions, lower wages, and weaken ecological standards. That was a big reason BMW embraced South Carolina. Even though BMW paid better wages than were typical in South Carolina, in the first five years of the deal manufacturing wages in the state actually shrank in real terms while they grew nationally.[31] Not a single new piece of labor and environmental legislation can be proposed at any level of government without critics pointing out the adverse consequences for retaining or attracting businesses. *And the criticism is correct.* It is increasingly difficult for a community following the TINA model to achieve prosperity and a high quality of life.

Sure, there are ways to tinker with this ruthless equation. As Richard Florida, the business school professor who popularized the concept of the “creative economy,” has argued, managers and entrepreneurs are part of a creative class that is searching for certain community values as part of its location calculus.[32] Some would prefer to have good schools, trendy shops and restaurants, plentiful movie theaters and museums, thriving artistic communities, and diverse residents. Fun, cool, rewarding—all these things matter to the globe-trotting professional. But under closer scrutiny, most of the companies that make up the creative economy are locally owned anyway. And the captains of a TINA company attached to a community because of lifestyle are easy pickings for takeover sharks.

Whose Destiny?

A community made up primarily of TINA businesses has essentially given up control over its future. Like the old mining company towns in West Virginia, TINA-dominated communities are operated by managers who are distant, remote, and often insensitive to local needs. Outsiders determine what the prices of goods should be, who should be hired, when layoffs should occur. And by wielding the threat to leave and exerting influence on local politicians (often through campaign contributions), these companies effectively can veto any piece of local legislation they do not like. Communities embracing TINA quickly find that have made themselves vulnerable to the erosion of self-governance and to the weakening of participatory democracy.

When economic relationships are more personal, they usually become more humane. When we work for, buy from, or invest in people we know, we tend to exercise a greater degree of care and responsibility. Shopkeepers take more time with each customer, craftspeople are more attentive to details, business associates share intimate details about one another's children, hobbies, and passions. If a customer forgets her wallet, a seller who knows her will still make the sale and apply credit. A bank lender who knows a potential borrower will give more weight to factors like his family and reputation.

The steady erosion of these human connections makes us more distrustful, more fearful about what "they" might do to "us," coarser in our treatment of faceless business partners, buyers, sellers, and investors. Would a small business owner declare bankruptcy to liquidate pensions held in trust for her workers? Perhaps, but the public censure that owner might have to bear around town arguably deters such behavior. Larger companies, like United Airlines, have had no such compunctions.

Economists, developers, and politicians repeatedly tell us that the replacement of these once-intimate relationships with anonymous ones will make us wealthier. To take advantage of these opportunities, we must set aside all our old, local, and small-minded ways of doing things. We should stop shopping at our favorite local stores because the prices at the chains are cheaper. As business people, any preference for people we know will, in the end, deny us access to the world's best talent, resources, and technology. The globe is now not only the relevant marketplace but also the only community that should matter.

The TINA mindset is that price trumps place—*always* (in the Wal-Mart vernacular). More specifically, cheap goods and services are more important than endangered species, beautiful wilderness, local democracy, historic preservation, downtown aesthetics, even more important than religion. How likely is it that a community in our current consumer culture could reenact Blue Laws to limit commerce on Sundays?

Around the country, communities proclaim that their single greatest priority is the safety, the morals, the education, and the success of their children, and economic development policies are often couched in terms of serving future generations. But how can a community embrace policies that rob schools of millions? The *St. Petersburg Times* has noted that Florida's annual TINA gifts "could pay for nearly 11,000 new teachers, pre-kindergarten classes for 150,000 4-year-olds and all of next year's tuition increase for more than 250,000 university students."[33] South Carolina, the top dog in TINA subsidies, has just about the lowest SAT scores in the nation. When basketball coach Rick Barnes decided to desert Clemson University (based in Pickens County, where many BMW workers work) for Austin, Texas, he admitted that he and his wife had concluded that "the schools are horrible."[34]

For Dorothy in *The Wizard of Oz* there is "no place like home," yet it is home that is exactly what TINA advocates ask us to sacrifice. In a community-friendly world, every place would develop a diversity of businesses that met the residents' basic needs but also took advantage of local resources, climate, culture, and history. If some residents were unemployed, others would work with them to develop new businesses to employ, engage, and integrate them. In the TINA mindset, in contrast, the unemployed are simply excess capacity to be shipped to another community. We're told to keep our bags packed so we can migrate at a moment's notice to another job hundreds or thousands of miles away. Forget about your friends and neighbors. Tell your kids to let go of their silly attachments to teachers and friends. Put away all those memories around your house. Community is just another obstacle to progress.

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