planning advisory service

MERICAN SOCIETY OF PLANNING OFFICIALS

313 EAST 60th STREET — CHICAGO 37, ILLINOIS

ation Report No. 22 January 1951

COMMUNITY INDUCEMENTS TO INDUSTRY

PLANNING ADVISORY SERVICE has received requests from communities wishing to attract industries to their areas. The SERVICE has been asked for an explanation of various methods of providing assistance to industry, and for general advice on the effectiveness of these types of inducements. Requests have also been made for examples of assistance and for legal decisions on such assistance.

This Information Report is a guide to the experiences of communities in attracting industries. We are also making available to PLANNING ADVISORY SERVICE members an accompanying bibliography on Industrial Development and Plant Location, which was furnished by the Area Development Division of the U. S. Department of Commerce.

Reasons For Offering Inducements to Industries

Some communities, recognizing that the amount and kind of industry within their vicinities will, in large part, determine the economic opportunities and level of living for their inhabitants, have sought means of attracting industries. Industry is rightly recognized as providing jobs, not only through direct employment, but also through the encouragement of commercial services for the industries themselves, and for the persons employed in the industries. Industry is also recognized as a major provider of public revenue to the community.

Communities also often feel that they must compete with each other in attracting new industrial enterprises, and in enticing industrial enterprises away from other communities.

Pressure tends to develop in particular communities to intensify campaigns for attracting industry. For example, special efforts are often made by:

1. Communities which are predominantly one-industry dominated. These communities are aware of potential dangers due to technical innovations or economic fluctuations when they are dependent upon one main source

of income. Any adverse influence on that one industry could ruin the economy of the community. The impoverished condition, for example, of some of the towns of New England after shoe or textile mills abandoned them serves as warning. This condition can be magnified when the community depends not only on a single industry, but on a single industrial firm. Therefore, there is an attempt to "widen the economic base" of the community and to diversify the types of industry in the community, since communities with such diversification seem to fare best in periods of economic distress.

2. Depressed areas. Areas such as the cut-over regions in Wisconsin and Michigan, or certain coal areas, where resources for extracting or forestry or agriculture have become depleted and economic activities are needed. Also, this category includes communities from which support through single (or major) industries has departed.

3. Under-developed areas. Areas that have not been as fully industrialized as the rest of the country, such as parts of the South or Puerto Rico.

4. Areas which, for various reasons, have suffered a loss in locational advantages because of factors such as shifting population and markets, depletion of raw materials, or high production costs.

5. Growing communities, particularly in the West, where the market for goods may be far greater than the local production of goods.

6. Communities which wish to maintain and round out the complement of existing employment by obtaining related industries necessary for the continuance of the existing industries.

In addition to communities with such special problems, there are numerous communities which share the belief of an ever-increasing American standard of living, and hope that a large portion of that increased standard of living be produced and also consumed within their boundaries.

Groups within communities which may be especially active in programs to attract industry include: merchants who hope to obtain increased local spending for goods and services; labor groups which hope to increase job opportunities, with resultant bettering of wages and labor conditions; utility companies which hope to sell additional power and light; real estate owners of industrial, commercial and residential properties, who hope for increased market for and prices of land; city officials, who hope to increase the tax base; railroad agents who hope for an increased use of rail facilities; industrialists who hope for complementary types of enterprise, which would assist in their own production.

New Industry Not Necessarily Desirable

New industry is not always an unqualified blessing. The seeking of new industry within a community may have proceeded without a careful inventory of facilities and services - and, as a result, the arrival of new industry may tax existing facilities and services beyond their capabilities. There may be no suitable land available; the only remaining land may be poorly located in respect to the total city development, or may be land that should be better devoted to recreational or housing or other uses in the community. Streets and highways may be insufficient to carry additional traffic loads; sewage disposal plants, water supplies, school facilities and housing facilities may be inadequate to meet the new demand, and there may be a considerable lag before these necessary services and facilities could be provided.

The coming of a new industry may be at the expense of existing industries, or of the expansion of those industries. While a community may be devoting its attention to attracting new industries, it may be overlooking the possibility of making the community more attractive for the expansion of the existing ones. City officials often think in terms of enticing new industries to share the tax burden, but this may not necessarily result if the cost of servicing the new industry is greater than the anticipated tax revenues, or if it is a low-wage industry, or if tax concessions are granted which would defeat the purpose of the development program which is to share the tax burden. Merchants may find that funds are spent elsewhere if other communities offer a greater diversity of attractive goods and services, or if it is more pleasant and convenient to shop in these other communities. The labor supply may be unsuited to the needs of new industries, sometimes giving rise to frictions between management and labor groups.

Particularly if economic inducements are offered to the new industry, the existing industries may be disturbed by the attraction of potential competitors which are given a subsidy, while they have none. As long as we have a competitive private-enterprise economy, there is serious question as to the justification and even the legality of underwriting some of the costs of one company, while another company of the same type must get along without such subsidy, merely because it was established some years ago.

In those communities where economic inducements such as plant construction or tax concessions are offered, the community runs the risk of "being left holding the bag" after having attracted marginal industries which migrate or go out of business after the period of concession has been completed.

Types of Inducement Offered

The community may undertake:

1. Industrial promotion campaigns - including advertising the existing and potential resources of the community.

2. Provision of free land.

3. Provision of free utilities, e. g., water.

4. Construction of a building for a prospective industry through

   (a) Subsidized rental or

   (b) Free rental

5. Financial assistance in the cost of moving a plant to the community.

6. Tax exemption.

7. Issuance of bonds to assist in plant development or company financing.

8. Levying of taxes to subsidize the new industry.

9. Public encouragement of industrial development corporations.

10. Provision of industrial districts or other types of planned industrial facilities.

11. Redevelopment programs to meet the worker housing needs and the land needs of industry.

12. Concentration on general improvement of the community to enhance its attractiveness.

PLANNING ADVISORY SERVICE in general advocates the four last mentioned means of locally assisting industry. Some of the other above-mentioned methods do not significantly assist industry; others aid industry perhaps to the detriment of other portions of the community. Through no means at its disposal can a community markedly alter its supply of raw materials or its market situation in relationship to the rest of the country; neither can it affect other major locational attractions. However, the community can aid industry - and aid industry in general, rather than a specific industry which it is trying to attract - through planning programs to meet the specific needs of the industry. Some of the community features that might be improved are the supply and quality of industrial land, the quality of housing available to management and workers, the cost of transporting goods and persons within the community and between the community and other areas, the supply and quality of water, the provision of educational, recreational and cultural facilities for the residents.

However, in addition to advocating the concentration of community effort on comprehensive planning (which will basically improve the environment for industry and for the persons working in and serving industry, directly and indirectly), PLANNING ADVISORY SERVICE recognizes that there have been experiences with other types of assistance programs which have appeared successful to the communities undertaking them.

The Industrial Levy as Used in Kansas

The experiences of the industrial levy as used in Kansas can serve as a useful case study of this kind of aid to industry. These experiences are surveyed in the report, "The Industrial Levy in Kansas," by J. D. Morgan of the Bureau of Business Research at the University of Kansas, Lawrence, Kansas, (October 1950). Legislation was first adopted in 1923 which permitted communities of under 20,000 population to levy taxes to induce industry to locate within a community. This legislation was amended in 1939 to provide that all cities of under 40,000 population could levy up to one-half mill (or one-twentieth of a cent) annually upon all property within the city for the purpose of securing manufacturing institutions for the city (Kansas Revised Statutes, 1947 Supp., 13-1441). Under the provisions of the legislation, a majority vote of citizens voting in a general election on the issue must be recorded prior to the levying of such tax. Altogether, 26 cities have voted to utilize the legislation, and 8 have rejected it. There have been no cases before a court of record testing the levy. Altogether, approximately $250,000 has been reported collected by the 26 cities as of June 30, 1950, about half of which has already been spent.

The levy was not popular until approximately 1944, by which time 10 cities had voted to use it. In 1945, 13 cities voted on the issue, and all 13 (some of which had previously adopted the levy) accepted the levy; this was its time of greatest popularity. The report indicates that several factors may be responsible:

> "The impact of the war, along with an influx of governmental installations, no doubt encouraged an optimistic attitude toward industrialization on the part of many cities...Further encouragement of the movement came from a relatively good financial position resulting from the war-time curb on expenditures and the war-time improvement of sources of revenue. A sharp decline in voter acceptance of the levy first took place in 1946, when the proposal was rejected for the first time. By that time, it should be remembered, 19 cities were securing funds from the industrial levy. Thereafter, few cities submitted the levy proposal anew, and not many cities which had had experience with the levy resubmitted the proposal. In the period 1948 through 1950, the proposal was on the ballot eleven times and defeated six times. This decline in acceptance would seem to indicate that the hey-day of the industrial levy is over, at least, temporarily."

The report goes on to indicate that

> "...Many of these cities found it far easier to collect the money than to spend it wisely...One small city raised several hundred dollars through the levy, and later, after several years during which the fund lay idle, transferred the sum to the general fund. Another city, several years ago, collected some $6,300, spent

> $1,900, and, at the present time, has a balance of $4,400 which it would like to spend if it could only find a good industry to encourage."

The wording of the enabling statute is very general; funds can be raised and expended for the purpose of "securing manufacturing institutions" for a city; thus the cities have disbursed the funds collected in an interesting fashion. The largest total amount of money - almost $50,000 - has been spent for land and buildings. However, money was also spent for such items as machinery, for advertising, for planning and zoning surveys, for loans, for exhibits, for uniforms for a band, for erection of advertising sign boards, and for traveling expenses of persons going to Washington, and occasionally, other cities, for the purpose of inducing a manufacturer to establish a plant in Kansas.

In analyzing the data, it is apparent that there is no direct relationship between the promotional and inducement activities of the communities, and the decision of a manufacturer to choose a specific location. The report points out that the funds in themselves, no matter how they would be expended, were not of significant size to materially aid most manufacturers, who must be guided by long-range locational considerations, rather than the immediate and rather limited benefits they might receive. However, the expenditures by the community may be instrumental in decision-making when a manufacturer is choosing between two or more otherwise similar communities. The report states as follows:

> "An accurate assessment of benefits derived from industrial fund expenditures is an impossible task. To report that a manufacturing plant was secured solely because it was given a long-term lease on land at a nominal rental, or that a trip 'back east' resulted in securing a plant, does little more than exhibit an almost complete lack of awareness of the multiplicity and complex nature of the factors motivating plant movement or new plant construction. In few instances are industrial levy funds of sufficient size to provide more than a passing interest to the business man who must have the proper combination of market, labor, transportation, and raw material factors. This is not to say that a given expenditure may not have started the 'ball rolling' or that it may not, in the end, have been the deciding factor. However, a combination of economic factors favorable to the profitable operation of a plant will ordinarily be the result of impersonal and largely uncontrollable factors in the economic landscape. Certainly, this is true insofar as the region is concerned. But, in the choice of particular areas within the region, levy fund expenditures may be important."

However, local representatives feel in some of the communities that specific industries have been induced into the town as a direct result of the use of funds:

"Thus, Pittsburg reported that industrial levy funds made possible the establishment of a factory which has since repaid the advances and has consistently employed 100 or more people. Independence reported acquisition of two factories because of industrial levy fund expenditure and for similar reasons, Paola reported two factories secured. The City Manager of Atchison reported in 1944, that his city, through the use of the industrial levy fund, secured the retention of the alcohol plant and the establishment of plants by the Inland Manufacturing Company and the Electra Manufacturing Company and assisted in securing a large refrigeration plant. Apparently, industrial levy funds financed an Atchison delegation which went to Michigan and Washington in connection with the retention and reorganization of the Agrol alcohol plant. A decision to dismantle the plant was changed, presumably because of the efforts of Atchison delegations."

Paola, which reported successful application of tax levy funds, had experience in aiding an industry previous to voting for the levy. Through voluntary subscription, several thousand dollars were raised to pay rentals and utilities of a company, which, after locating in the community, employed 200 people. Following this experience, the levy was approved, and two industries, employing 50 persons, were secured. The city purchased land which it made available on a long-term lease, and also provided utilities and made site improvements. A non-profit industrial corporation was created for this purpose; the funds were not spent for such items as travel and advertising, but for sites and improvements.

The study seems to favor the Paola type of use of the industrial levy, which is operated through a form of non-profit industrial corporation. Land which is furnished by the city is not given to the company, but made available on a long-term rental basis. The report concludes:

"The motivating force behind industrial levy expenditures in virtually all cities was the Chamber of Commerce. An active Chamber usually meant an active fund...The experience of most of the cities using the levy has not been such as to encourage its widespread use by eligible Kansas cities. Had the 26 cities generally duplicated the favorable experience of Paola, there is little doubt that the levy would now be considerably more popular than it is."

Community Industrial Financing Plans

Often, community industrial foundations are established as non-profit corporations, composed of and directed by citizen members. Generally, stock in the corporation is sold, and the funds raised in this manner may be used to purchase existing buildings, to erect new plants, to offer loans to companies, etc. Sometimes, instead of sale of stock, contributions to the foundations are sought, or mortgages are obtained on property acquired by the foundations. It is generally hoped by the corporation that funds expended to assist industries will be repaid; this has not always been the case. However, information on the success of industrial financing plans is more easily obtained than on the lack of success of such plans; thus it is difficult to assess the losses which might be attributed to them. In addition, certain communities, such as New Bedford, Massachusetts, and Warwick, Rhode Island, have established industrial development commissions which are financed by appropriations from the municipal governments. Although many of the foundation plans do not receive direct assistance from the local government, they may be encouraged by the government through endorsement of the program, through granting of a charter, etc.

Robert A. Andrews of the Graduate School of Business at Stanford University, Stanford, California, who examined various types of community industrial financing plans in operation in this country, reports as of November 1950, a total of 291 plans established in 40 states. Forty-four of these plans are inactive or have been discontinued, leaving roughly 250 communities reported to aid industries through financing plans. This contrasts with the figure of 100 community industrial foundations reported by Dr. Alfred C. Neal, Vice President of the Federal Reserve Bank of Boston in March 1950, and with the 72 cities with industrial foundations noted by a Tulsa, Oklahoma, Chamber of Commerce survey in 1949.

The Andrews report identifies several types of financing plans: the direct financing plan, the credit guarantee plan, a financing service plan and real estate plans; in addition, 33 plans, 6 of which are reported as being inactive, were not grouped into the above categories.

A direct financing plan is one which includes the making of direct loans or the purchasing of stock of the industries locating in the community. Forty-seven of these were identified by the study, 38 of which are indicated to be active. Two credit guarantee plans were reported to have existed, one of which has been inactive since 1940 - these plans operate by guaranteeing loans made to business concerns by outside financial institutions. Another community operates a financing service plan which supplies management assistance to firms, and arranges financing from outside sources.

The largest number of plans in operation are grouped under the heading of real estate plans, a total of 207, 180 of which are reported as being active. These include plans for assistance in financing the sites and the buildings.

Of a total of 28 selected direct financing plans, a total number of 381 firms were reported to have been assisted by these plans with expenditures of approximately $11,000,000. Data were not available from all communities on the number of new jobs brought in by the new firms added through these financing plans, nor on the payroll of these firms. However, 16 communities reported close to 20,000 jobs brought in by the assistance program. Of 15 communities reporting payrolls attributed to the industries aided by the financing plans, a total payroll of $29,140,000 was listed. The plan longest in operation was that of LaCrosse, Wisconsin, which, at the time of reporting, had been in existence for 40 years, had aided 24 firms, and had extended about $430,000 in assistance to these firms. The Scranton, Pennsylvania, program had been in operation 36 years, had spent $3,350,000 to aid 70 firms, to which 7,850 jobs and a payroll of $15,280,000 were attributed. The two communities extending credit guarantees assisted 26 firms, provided $1,761,500 to these firms, brought in 3,025 new jobs, and added approximately $10,100,000 in payroll to the community.

Of the 15 selected communities with real estate plans, 207 firms were aided to the extent of $2,462,000, with a total of 30,320 jobs created by these activities (two communities did not report the number of jobs created), and with a total new payroll of $20,870,056 (six communities did not report payrolls).

The report concludes with suggestions for successful operations of community industrial financing plans. These are:

1. Raise a fund of substantial size - preferably at least $100,000.

2. Use resources as a revolving fund, anticipating repayment of loans, rather than outright grants.

3. Emphasize expansion of existing local firms, at least as much as bringing in firms from outside.

4. Use flexible financing methods suited to uncertainties of small firms.

5. Offer management advice and assistance to small firms, to improve their policies and methods and thereby strengthen the security of the loans.

6. Make the plan adaptable in order to meet changing needs.

The influence of this type of industrial encouragement may be measured within particular states or regions. For example, according to the Missouri Division of Resources and Development, 49 communities and 33 counties in that state had formed industrial development corporations by the middle of 1950. Eighty per cent of the corporations had secured one or more industries; total employment within the industries secured was 5,052. Local investment totaled $1,085,400, or an average of $215 per employee. The total payroll of the new industries was not determined, but the most recent figures when obtainable revealed an average industrial wage of $2,252; if this figure is used, more than 10 times the local investment per employee was paid in wages. Also, it was estimated that the "dollar turnover" multiplied the value of the payroll dollar three times, or $6,756. In addition, an average of four and one-half per cent interest was returned to the stockholders.

Additional information on industrial financing plans is contained in the following publications:

An Analysis of Industrial Foundations. Tulsa Chamber of Commerce, Tulsa, Oklahoma. January 1949. 62pp.mimeo. Obtainable from the Tulsa Chamber of Commerce for $3.00.

Community Industrial Financing Plans. Report No. 119. Chamber of Commerce of the United States, Commercial Organization Department, Washington, D. C. Undated. 11pp.mimeo.

"Community Industrial-Financing Plans in New England." Monthly Review, Federal Reserve Bank of Boston, Boston, Massachusetts. July 1950. pp.1-7.

Industrial Development Agencies in New England. New England Council, Statler Building, Boston 16, Massachusetts. May 16, 1950. 14pp.mimeo.

"Industrial Development Corporations in Tennessee." Robert Cassell. Tennessee Industrial Planning Newsletter. Tennessee State Planning Commission, 432 Sixth Avenue North, Nashville 3, Tennessee. January 1, 1947.

"The Community Goes Into Business." Richardson Wood. Harvard Business Review. March 1948. pp.144-155.

The Louisville Industrial Foundation: A Study in Community Capitalization of Local Industries. Ernest J. Hopkins. The Federal Reserve Bank of Atlanta, Atlanta, Georgia. 1945. 62pp.

Wisconsin Case Studies

Tax exemption is prohibited in general in Wisconsin, either directly, or through under-assessment of property. (Zinc oxide production was once exempted by statute, however). Loans to industry and governmental purchase of industrial securities are not authorized by statute. Local industrial promotion programs must be approved by public referendum, and must be limited to relatively small amounts. There have been adverse court decisions in cases where municipalities have extended special assistance to industries (see later section on Legal Decisions). Nevertheless, considerable assistance to industry has been extended by Wisconsin municipalities; this experience is summarized in a University of Wisconsin School of Commerce study, Subsidization of Industry in Forty Selected Cities in Wisconsin, 1930-1946, by W. D. Knight. Historical case studies of the processes by which the industries were attracted are presented for the 40 cities.

The cities covered in this survey are small, only a handful having populations of more than 20,000. The desperateness with which many of the Wisconsin cities sought to attract industries is emphasized. The subsidized industries were chiefly those which pay low wages. The largest industry, in subsidies given as well as in the total payroll added, was the shoe industry, and of this industry it is stated:

> "It is widely recognized that the shoe industry possesses certain characteristics which make it suitable for subsidization...the importance of labor as a cost factor...the practice of leasing machin-

ery...which tend to hold capital requirements to a minimum, (and) ...to produce a large amount of employment relative to capital invested. A third factor...is the use of a considerable proportion of semi-skilled labor, including much work in which women can be used ...The typical shoe promotion included in this report has involved the decentralization of a large well-established Milwaukee firm, which moved to a relatively unindustrialized town, where there was a supply of surplus labor, in search of lower labor costs."

The author does not say so, but it seems plausible that the industries were less attracted to the small central and northern Wisconsin cities by the subsidies than by the plentiful supply of labor. The subsidies were factors which perhaps persuaded the big-city manufacturer to move his plant, and to guide his choice between different small-sized cities in the same area.

W. D. Knight points out that he began his study of 40 cities in Wisconsin opposed to the idea of subsidization, but found on the basis of the research that the programs had in most cases been beneficial. The extreme needs of depression-era Wisconsin communities that had lost their lumber industries, or had no industry of any kind are cited.

His attitude is that subsidies overcome the "frictional costs" of moving and establishing or re-establishing the industry in its new location, and that from the community's point of view, subsidization, even in cases where the return in payroll money is not too profitable, helps keep the community going, and allows people who want to remain in the community to stay there. Most economic analyses tend to ignore this "social cost factor" as Knight calls it, but this is equally, if not more important, than the amount of the payroll per se. A danger is that subsidization may delay, rather than prevent the economic bankruptcy of a community in cases where economic conversion, to industry, or to a new industry, is impossible.

One might distinguish here between "frictional cost" subsidies described above, and gifts. The latter, often a result of the community's desperate attempt to "buy an industry" without proper investigation, are likely to attract firms which cannot possibly maintain themselves competitively in the area, and which will then collapse as soon as the gifts are used up. This happened in an Illinois town. In the period of 1925-1940, this town raised $83,000 in gifts for four manufacturers. The total payroll of these firms added up to only $370,000, so that the community contributed approximately 20 per cent of every wage dollar.

Inducements: Mississippi, Puerto Rico and Maine Style

The Balance Agriculture With Industry (BAWI) program in Mississippi began in 1936, and was revived in 1944, after a lapse of some four years. An Agricultural and Industrial Board administers the program, utilizing "certificates of public convenience and necessity" authorizing municipalities or counties to issue bonds for acquiring land or constructing buildings for industries. The local government issues bonds only after approval is recorded of two-thirds of the voters in an election in which the majority of the qualified voters participate. The usual contract agreement specifies that the industry guarantee a payroll for 10 years and pay an agreed-upon rental. According to the Christian Science Monitor of January 17, 1950, 46 BAWI plants had been constructed, employing approximately 13,000 persons, with an investment of at least $100,000,000. Wood-using manufacturers, textiles, milk processors, fertilizers, chemicals, brick and cement products, petroleum and electric power plants are among the industries aided by the program.

The Agricultural and Industrial Board carefully screens prospective firms and the resources of the communities proposing to aid these firms. It must determine, among other things, before granting the certificate enabling the municipality to issue bonds, that labor supply is available, that the municipality is financially able to support the bonded indebtedness, and that raw materials will be sufficient to last at least 10 years.

The report of the Committee of the South, National Planning Association, State Planning and Economic Development in the South, prepared by Albert Lepawsky in 1949, raises these considerations:

> "How it will weather the next economic storm, whether any Mississippi municipalities will inherit a defaulted factory, what they will dare do in the way of operation or management permitted under the BAWI statute - these may be the tests that will determine BAWI's future...."

The BAWI statute empowers municipalities to operate the plant facilities directly. Tax exemption (as is mentioned in this report) is also granted in Mississippi.

The economic development program of Puerto Rico includes (as well as tax exemption) direct construction and operation of plants by the government agency, the Puerto Rico Industrial Development Company. Glass, paper, ceramics, cement and shoe factories were operated by subsidiary corporations of the Industrial Development Company; operations of the paper factory were discontinued by the government in 1949. The other plants employed 820 workers, disbursed an annual payroll of $850,000, and produced $7,000,000 worth of goods in 1949. The Industrial Development Company has aided private enterprises by building facilities for them which are leased on favorable terms, or which are transferred to them on a mortgage loan basis. Also, working capital loans have been granted to private enterprises. The Industrial Development Company has favored industries which use mostly raw materials; have bulky products which can take advantage of lower freight costs, have relatively high labor costs, have a large local market and produce goods complementary to or essential to existing industries. The large hotel built for lease to the Hilton chain, was, of course, designed to encourage the tourist industry in Puerto Rico.

Maine has established (through statutes effective in August 1949) a Development Credit Corporation which does not depend on the state or local governments for financial support, but which has governmental sanction for the establishment of a private credit pool. Banking institutions and insurance companies may be members of the Corporation, and may grant loans to the Corporation, which in turn may lend money to private enterprises. The purpose of the Corporation is to make available equity capital for enterprises that cannot meet ordinary bank requirements.

Tax Exemption Legislation

Either a constitutional provision or state enabling legislation (or both) is a prerequisite to local or state tax exemption for industry. The number of states having adopted such legislation varies with the interpretation of "exemption" - what kind of exemption is granted, the duration of the exemption, the industries favored, whether the statutes are still in effect, etc. For example, the Committee on Planning and Development Legislation of the Association of State Planning and Development Agencies reported in 1950 that at least nine states - Alabama, Arkansas, Florida, Kentucky, Louisiana, Mississippi, Rhode Island, South Carolina and Vermont - grant tax exemption in some form to manufacturing establishments. The National Association of Assessing Officers, using a different method of classification, in 1949 indicated that 17 states and Alaska offer some form of industrial tax exemption. The latter group, for example, includes New York, Delaware and Pennsylvania, which exempts manufacturers as well as others from tangible personal property taxes; Massachusetts was reported to exempt machinery and inventories of manufacturing corporations from general property taxation but levied a state excise tax with a rate of $5 per $1,000 of value; several Maryland counties were reported to have exempted from taxation manufacturing tools and machinery.

Not all statutes are still in effect; for example, Virginia in 1944 repealed a measure permitting local governments to grant five year exemptions to new industries; Georgia's constitution, adopted in 1945, omitted a provision permitting local governments to grant five year exemptions to new manufacturers. A number of these laws have been limited in application, sometimes to only one or two highly favored industries; Oklahoma, for example, has exempted cotton textile manufacturing; Michigan once exempted salt manufacturing.

The more usual specified tax exemption periods are those not exceeding five or ten years; Florida has permitted exemption up to 15 years for certain industries.

Arkansas permits varying state property tax exemptions for a period up to 10 years. Either new industries or additions to existing industries may come under the legislation, and taxation on capital investment for a period up to seven years is also exempted.

Puerto Rico exempts from insular and municipal income and real property taxes, a list of 41 manufacturing establishments until 1959; partial tax exemption is given for three additional years. The industries eligible for these benefits include the manufacture of rugs, shoes, caramels, ceramics, cigarettes, cigars, toys, cosmetics, glassware, hosiery, soaps, tannery products, crackers, food pastes, vegetable oils, artificial flowers, mattresses, furniture, embroidery and certain other articles. Existing industries, as well as new ones, come within the provisions of the act. Hotels are also given tax concessions.

Mississippi exempts public utility enterprises and an extensive list of manufacturing enterprises from local ad valorem taxes for a period up to five years. Louisiana provides for exemption from state and local ad valorem taxes on buildings and machinery for periods up to ten years for new enterprises and for additions to existing plants. The scope of this program may be gauged by the fact that at just one meeting (the first held in 1950) of the Louisiana Department of Commerce and Industry, 34 applications for tax exemption on over $12,000,000 of new industrial construction were approved. Jobs for over 800 persons were to be created by these new plants. The largest exemption approved at that time was in excess of $8,000,000 for a utility company to complete a new steam-electric generating plant.

How Important Are Tax Exemptions?

In 1926 and 1927, the Metropolitan Life Insurance Company determined, by an extensive survey, the relative importance of various reasons for plant location. Taxes were mentioned as the twelfth item in a list of sixteen. Markets, labor, transportation, materials, available buildings, power and fuel, and many other locational factors were considered more important than the amount of taxes.

PLANNING ADVISORY SERVICE does not believe that this situation has markedly changed, particularly in view of the relatively small share that local taxes play in the total tax burden and in total industrial costs. The study, "Annexation of Industrial Areas by Cities," prepared by the American Society of Planning Officials and the American Municipal Association in 1949, and released to PLANNING ADVISORY SERVICE members, indicated that local government taxes do not appear to be a major factor in the location of industry.

An official of the Sylvania Electric Products, Inc., S. B. Williams, speaking on the subject, "The Town in Which We Want to Build a Plant," before the Fifth Annual Conference of the Association of State Planning and Development Agencies, May 1950, indicated the feeling of his company towards tax concessions:

> "...We feel that taxes are the only way a community has of raising money to pay for necessary municipal expenses. We want to pay our share the same as anybody else, but we want to be sure that the taxes are fair. If we don't pay our share, someone else has to pay it. Perhaps at a later date, we, too, would be paying a part of someone else's taxes, and that we wouldn't like."

H. Y. Bassett, Vice President and General Manager of the Wolverine Tube Division, Calumet and Hecla Consolidated Copper Company, in indicating why his company selected Decatur, Alabama, as the location for a large new plant, discussed plant location factors. He stated in the pamphlet, "What Does Industry Expect of A Community?" released by the Bureau of Public Administration, University of Alabama, University, Alabama, in 1948:

> "It is my feeling that both community and industry should avoid subsidies in the form of land grants, buildings, etc.....Generally speaking, the same comments apply with respect to tax exemptions. Most industries feel a definite obligation to the community in which they locate and want to assume their share of the cost of public facilities and services offered by it. While it is extremely difficult to evaluate the worth of the public services and facilities offered, comparative studies usually will provide bases for sound conclusions. Such comparisons will vary, depending on the industry involved, its requirements with respect to those services and facilities, size, etc."

A Tennessee community has recently had the experience of being rejected as a location by a large industry, on the basis that the community's services and facilities were inadequate. Instead of low taxes being a locational attraction, they were a deterrant from the industry's point of view. The company sought a community which could afford to service not only its plant facilities, but could also pleasantly house its workers.

The South Carolina State Planning Board asked how important tax concessions are in the location of industry. The answer, in its Pamphlet #9, March 1943, Is New Industry Tax Exemption Effective? was negative. In a poll of its counties, to which one-third replied, eleven of sixteen felt tax exemptions were not a determining factor in locating industries. Only three counties felt they were. Of other states polled, Louisiana felt that "during the existence of tax exemption law, Louisiana experienced the greatest industrial expansion in its history." This statement, by the Board of Directors of the Department of Commerce and Industry, was made in 1942.

George Steiner concluded in his The Tax System and Industrial Development (University of Illinois, Urbana, 1938), that it appears that "shifts in industrial location that may have occurred in the years covered by this study (1922-35) were caused by factors other than variations in tax burdens."

James W. Martin, Director of the Bureau of Business Research, University of Kentucky, concluded after a study of "Relation of Taxation to Industrial Development in Kentucky" (Kentucky School Journal, 1943), that although this state provides unusual property tax subsidies to manufacturers, "taxation is not a major factor in industrial location or growth."

If businesses act rationally, and estimate their costs of operation with reasonable precision, they are not likely to transfer operations solely because of differentials in the state tax burden. That is the conclusion of Jesse Burkhead and Donald C. Steel in "The Effect of State Taxation on the Migration of Industry," published in The Journal of Business of the University of Chicago, July 1950.

How Important are Other Subsidies?

Why Industry Moves South, by Glenn E. McLaughlin and Stefan Robock (National Planning Association, Committee of the South, 1949), indicated the relative unimportance of both tax concessions and other local inducements:

> "The great bulk of the concerns included in this survey pointed out that they received no special inducements whatsoever in selecting their plant locations. Usually, however, manufacturers accepted short-term exemptions from state taxes, wherever they are available to new industrial ventures...
>
> "Another reason why manufacturers were usually not impressed by local concessions was that the offered grants consisted mainly of free sites or payments on buildings, which accounted for only a small proportion of total plant cost. Very rarely among the large concerns investigated did the site itself account for more than a few per cent of the total plant investment, and even where the building was included, the cost was usually less than that for the machinery. Several manufacturers indicated that it would be taking advantage of the local community to accept gifts because a gift could not affect the locational decision. One official of a large concern stated that in this respect: 'Any worthwhile industry ought to row its fair share in the boat.'
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> "In addition, several manufacturers were definitely suspicious of prospective locations when they were presented primarily in terms of special inducements. On this subject one official states: 'They usually offer inducements where the location doesn't have much to offer.' In three instances, the firms accepted a local concession as evidence of the cooperation of the community and returned the funds to the community at the opening of the plant.
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> "Although special concessions were generally condemned, there was a common agreement that the local communities should be more effective in furnishing adequate community services. As already indicated, the ability of the community to furnish these services promptly has had a measurable effect in the last stages of local selection."

The Tennessee State Planning Commission has been concerned with the question of whether subsidies have value or not, and has generally concluded that the subsidies to industry are not desirable. There have been examples of several communities in the state in which sacrifices have been made, such as the city paying the industrial employee wages, or wage deductions, to pay for industrial buildings, only to have the plant operators vanish after brief, exploitive periods.

One account of the Tennessee experiences is related in "Shall Tennessee

Communities Subsidize Industries to Secure Local Employment?" (The Tennessee Planner, June 1945, Tennessee Planning Commission), which concludes as follows:

> "In establishing or enlarging industries to assure local employment, it is recommended that action be along the lines of logical development based on the real advantages of the state and the particular community. Community investments of money and effort in honest self-examination and in community betterment will make that community attractive to industrial prospects.
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> "Generally speaking, an industry which makes heavy demands for public subsidy as a condition of 'moving in' is one which is as likely to move out when the subsidy ends or when a competing community raises the bid. In brief, public subsidy of plant costs and overhead will serve only to increase the liklihood of the industry's moving out."

The Tennessee State Planning Commission published Subsidization for Industries in Tennessee, in February 1947. This report objects to subsidies on the basis that, "A request by an industry for gratuitous aid is generally a danger signal, for sound enterprises do not seek outright gifts." It must be noted that in most cases, it is not the industry asking, but the community offering subsidies (although few industries presumably reject such offers). This report stresses the danger of attracting fly-by-night firms (although it should be stated that many subsidy programs now have rigid investigation programs which weed out such firms). This report recommends that the practice of public subsidization should be stopped, and "that encouragement should be given to local industrial development groups which provide private funds for new industries, if necessary by the passage of a general enabling law to aid the formation of such groups." It was felt that private groups can more easily extend the community's good will and provide more efficient counsel and assistance to new industry than a public group, and can also raise the money more easily.

Legal Decisions on Subsidization of Industry

In July 1950, the Kentucky State Court of Appeals upheld the constitutionality of a 1946 state law permitting municipalities to issue bonds for industrial construction backed only by rental revenue from new plant facilities, in the case of Faulconer et al. v. City of Danville et al., 232 S.W. 2d 80. Following this decision, twenty additional cities in Kentucky announced that they were looking for firms of good credit standing for which to build new plants. The state Chamber of Commerce is to assist these cities in their search. Since this decision gave so much impetus to the industrial assistance program of Kentucky, it is pertinent to review the facts of the particular case and to review other decisions in this field.

The City of Danville proposed to issue $300,000 worth of bonds to acquire a site and erect a building to be leased to the General Shoe Corporation. An ordinance was passed (under the authority of Chapter 58, Acts of 1946 of the Kentucky Revised Statutes), the preamble of which stated, among other things, that adequate opportunities for industrial employment were not available in Danville, and that unless citizens were provided with such opportunities, they would be required to move to other communities to obtain employment. Also, the General Shoe Corporation had been investigated, and appeared to have a good reputation for good citizenship, labor relations and labor policies in other communities where its plants are located, and that it appeared to have ample resources, thereby being able to make the prescribed rental payments.

The enabling statute embodied the legislative determination that the acquisition and ownership of an industrial building by the city is a public purpose. Also, the Kentucky Constitution expressly permits cities or towns to exempt industries from municipal taxation as "an inducement to their location." The court indicated that it would not countermand the legislative determinations unless the court conceived the legislation to be without reasonable relation to the public interest or welfare, or outside of the scope of legitimate business.

In upholding the right of Danville to issue bonds, backed by the revenues of the anticipated rental of the plant, the court stated:

> "...the courts of the country are of divided opinion, though the majority hold that the encouragement and promotion of a specific industrial enterprise under an arrangement similar to the present where it involves the taxing power is beyond the constitutional power of a legislature or a municipality...Unlike the statute providing for the acquisition and development of public projects generally by the revenue bond plan (Ch. 58, KRS), the statute under which this project is being developed contains no provision permitting the use of general funds or revenues to finance the same, or the payment of any bonds issued therefor. The statute, the ordinance and the bonds themselves, all state the security and source of payment to be the rents ... though the objectives of the present enterprise may embrace some elements of governmental function, the ingenious plan of paying for the property must be deemed to be a proprietary venture. It is this condition and the entire absence of either power or purpose that distinguishes the cases listed by the appellant, particularly Azbill v. Lexington Mfg. Co."

In the case of Azbill et al. v. Lexington Mfg. Co., Inc., et al., 221 S.W. 2d 555, the Supreme Court of Tennessee decided in 1949 that the state is committed to the rule that encouragement or promotion of an industrial enterprise, carried on by private ownership, is not a public purpose for which public money may be appropriated. The town of Lexington had owned some land on which a building was erected which had been formerly used as a school gymnasium. The municipality leased this property to the Lexington Manufacturing Company for industrial purposes and agreed to erect a factory to cost between $35,000 and $75,000. The manufacturing company was to pay an agreed upon rental plus an annual charge of 1/10 the total construction costs.

The Supreme Court of Arkansas in 1949 declared unconstitutional a state statute and a local ordinance under which Clarksville, Arkansas, was to issue $100,000 in bonds to secure a new manufacturing enterprise for the city, in the case of Williams v. Harris, Mayor, et al., 224 S.W. 2d 9. The bonds were to be repaid solely from the net revenues of the electric light and power plant owned and operated by the city. The suit which successfully challenged the constitutionality of the ordinance and the Arkansas General Assemblies Act No. 463 of 1949, alleged that the amount of the proposed bond issue, $100,000 was greater than the total revenues of the city from all sources for the then current year.

However, recently (November 1950) the Supreme Court of Alabama, in an Opinion of the Justices, 49 So. 2d 175, upheld Act No. 648 adopted in 1949. The act provided that upon approval of the governing body of the municipality, non-profit public corporations might be organized for the purpose of inducing manufacturing, industrial and commercial enterprises to locate in the state. The corporations are authorized to acquire land and to construct or refurbish the buildings for lease to industrial and commercial enterprises. Bonds may be issued by the corporations for financing the land and buildings; the bonds are repayable solely from the revenue derived from the lease or sale of the facilities. The municipality is not liable for payment of the bonds. Surplus earnings, if any, are to be paid to the municipality. The state constitution contains a prohibition against the expenditure of public funds for private purposes. The court, in upholding the act, pointed out that no expenditure of public money was involved, and that no liability would be incurred by the municipality.

Two Wisconsin cases in which the court refused to uphold concessions to industry are: City of Kiel v. Frank Shoe Mfg. Co. 240 Wis. 594 (1942) and Wendlandt v. Hartford Accident and Indemnity Co. 222 Wis. 204, 268 N.W. 230 (1936). In the former mentioned case, the city was to permit the company to locate its plant which would be rent and tax free for a period of five years; at the end of the period the city was to convey certain property to the company, and to maintain a reasonable assessed valuation on the property; in addition the city was to pay the company a certain sum of money after it had moved to the city. In return for these inducements, the company was to maintain an average annual payroll of $40,000 or more for the five-year period. In the latter named case, free water was to be furnished to a shoe company and the citizens of the City of New London were to pay the company $100,000; in return, the company was to guarantee that it would pay in local wages at least $1,000,000 within a ten-year period.

Other and less recent cases illustrate the fact that the courts are divided on the question of the validity of tax exemption and other inducement provisions. For example, in Eyers Woolen Company v. Gilsum, 94 N.H. 1, 146 Atl. 511, 64 A.L.R. 1196 (1929), it was held that a special exemption given by statute to a specific woolen mill is not for a "public purpose" and hence is void: this exemption "gives the town's money to the plaintiff as effectively as would a direct appropriation of the sum involved." See also State v. Company, 60 N.H. 219, (1880) and Canaan v. District, 74 N.H. 517, 70 Atl. 250, (1908). In Citizens Savings and Loan Association v. Topeka, 20 Wall 655, the United States Supreme Court held that direct subsidies for industry were expenditures of public money for a private purpose and thus were illegal.

However, the leading case of Crafts v. Ray, 22 R.I. 179, 46 Atl. 1043, 49 L.R.A. 604 (1900) differs in interpretation. A town vote, subsequently ratified by the Rhode Island Assembly, had exempted from taxation for ten years two specific firms. The court stated:

> "It is argued that the exemption in this case is equivalent to taking a taxpayer's money, and giving it to the manufacturer. It is not quite that. The theory of the transaction is that a public benefit will accrue to the town and its inhabitants by the introduction of the business enterprise, equivalent to an exemption from taxes for a certain time, and on this ground it is offered... The property of a town is benefited, both in value and income, by the introduction of business, and the consequent increase of inhabitants. When, therefore, one erects a factory under a contract of exemption, the consideration for which is an expected public benefit, the case is quite different from that of a pure gift."

Robert M. Baker and James E. Curry (in "Taxpayer's Paradise in the Caribbean," Vanderbilt Law Review, Vol.1.1947-48), summarizes some of the conditions which must be met in order that the laws granting tax exemption will be upheld:

1. The legislation must be founded upon some principle of public policy; the public interest must be benefited.

2. The legislation must be of general and uniform application.

3. If there is a bargain for consideration, tax exemption will not be subject to impairment by subsequent legislation. (On the other hand, if there is no bargain for consideration, but general encouragements are given through general laws to all persons indiscriminately to engage in a particular trade or manufacture, then the laws may be repealed at any time.)

Some of the pertinent cases illustrating each of the above points are as follows:

1. Miller v. Lamar Life Ins. Co., 158 Miss. 753, 131 So. 262 (1931).

   Harkin v. Bd. of Commrs., 30 Wyo. 455, 222 Pac. 35, (1924).

   State v. Snyder, 29 Wyo. 199, 212 Pac. 771, (1923).

2. Wisconsin C.R. Co. v. Taylor County, 52 Wis. 37, 8 N. W. 833, (1881).

   State v. Poydrus, 9 La. Ann. 165, (1854).

3. East Saginaw Mfg. Co. v. East Saginaw, 80 U.S. (18 Wall.) 373, (1871).

State ex rel. Foote v. Bartholomew, 108 Conn. 246, 247, 142 Atl. 800, 803, (1928).

Summary

This Information Report has concentrated on some of the more direct financial aids to industry, such as community industrial financing programs, the industrial tax levy of Kansas, the BAWI program of Mississippi, the direct construction and operation of plants in Puerto Rico, the tax exemption policies of a number of states and local communities, and other aids such as the provision of a free site or building, of free utilities, of assistance in the cost of moving a plant, etc. The Report has also presented some of the legal decisions pertaining to these various types of inducements to industry, and some of the research findings of studies analyzing such inducements.

A number of excellent other types of assistance to industry in general have been only briefly mentioned. These are not, strictly speaking, inducements, but rather planning for the needs of industry. They would include the extensive state development and research programs which make available to industry the information needed for sound location choices, and which give guidance in the launching of a new enterprise or expansion of an existing one. These would also include the communities which are considering the needs of industry in redevelopment programs, and are encouraging the development of planned industrial districts. The general attractiveness and liveability of a community, and the caliber of the facilities and services made available will help determine the efficiency in industrial operations and the satisfaction in the lives of employees and employers. In recognizing this, a community will find that industry will benefit from location within its area, and that the community also will benefit from such location.