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MR. KING: I have a question on those job creation credits. You are paying recompense for creation of jobs. Business is volatile it is good and sometimes it is bad.

Can you get tangled up with responsibility in the courts if you don't create the jobs, if they're not on a continuing basis? I have had experience where this has been very troublesome, say in France, where I got some big concessions, but we spent the rest of our lives trying to unwind it because the business was not as steady as it would have been otherwise. So, do you have any comments on that? What is your liability?

MR. GREEN: In Ohio, -- and it happens, business does not do what it said it was going to do or whatever, so it happens.

In Ohio, anyway, for the job creation tax credit, the simple answer is, you do not create the jobs you do not get the credit. The State does not go to Court to get money back. That does not typically happen. Typically, they just end the credit. They end the grant, whatever it is and they go their merry way.

Now, if a company were to say they were going to create jobs and we were to give them a grant and/or a credit and they were to move out of state, shut down their operation here, and move out of state, then there are more penalties. Then they have to give the money back, but, if a company just simply is going to stay here and they said they were going to create 100 jobs and they create 50, we cancel the credit. We size down the credit, those kinds of things.

MR. SISTO: There is a certain subjectivity, there is a claw-back provision in all incentive programs to an extent, exactly what Nate has articulated, but the claw back provision within the JCTC agreement that says if you fail to live up the terms of this, the Department of Development has the right to claw back the incentives that were already paid to you, in other words, any of the refund or credits you received on your taxes.

In practice, as Nate has stated, that is generally speaking, they only end the credit. They don't seek to claw back, and they subjectively try to determine was this company not living up to the agreement by going somewhere else, perhaps, to another state, or was it an economic situation that caused them to not meet their goals?

And, if they decide the latter, then they do not aggressively pursue the claw back and they just end the program, but, if you go to another state, they will enforce those contractual provisions and it will end up in Court.
MR. GRAY: I am Herb Gray, Canadian Chair of the International Joint Commission. I listened carefully to the two presentations. Both I found very informative and, in fact, fascinating, but I did not hear one word, which is otherwise being used in these types of discussions that is the word outsourcing, outsourcing. I would like to know, how this is being taken into account in incentive programs and in locational decisions?

We are not operating in a closed world between Canada and the United States. There is the issue of outsourcing, which has become an issue in the U.S. presidential and congressional election campaigns. It may become an issue in Canada. I would like to hear more about that and how you're taking into account in designing your incentive programs, the issue of outsourcing and this applies particularly to the United States, where I think at the state level there is many more incentive programs than at the provincial level in Canada. It seems to me without dealing with the issue of outsourcing, something is missing in what were otherwise, fascinating and informative presentations.

MR. SCHJELDAHL: Let me take a stab at this. That is a really good question. From the perspective of consulting with both large and small corporations we often see the positive side of outsourcing. The positive side is that it creates jobs somewhere. So we treat outsourcing projects just the way we would treat any other project. It is a new investment. It is job creation whether it is in the U.S., in Canada, in Mexico, in China, wherever. And the need to find the best location for that investment is the same as any new investment.

Your question is well taken, because there is a negative side to outsourcing, that is, the loss of jobs or loss of investment and what impact this may have on the community. This is part of an important policy issues. I will turn that over to these guys because I don't get involved in policy development. That is the hardest part of the equation.

MR. SISTO: I can give an antidotal answer. I have a company, a client, it is an engineering company and they are currently going through a consolidation of facilities and potential relocation.

The specter of competition was raised and the company truly does not intend to leave the municipality in which they are located, but it turns out, in side bar conversation between development officials that it was mentioned that the company had recently been contacted by an organization in India, regarding outsourcing of CAD operators.

And this could have presented a significant savings to the company. Of course, they would have had to do their due diligence on whether or not there was capable and they could control the CAD process that would have been done in India.

The second this was mentioned, the number of incentives that were offered went from six to twelve, or doubled, not in quantity, but in the different
programs that were brought to bear, because now there was specter of competition. It was not a relocation competition.

And it turns out in -- at least in the Ohio Department of Development, outsourcing has become quite a hot topic, and it has been unofficially labeled as competition for location decisions; and, therefore, they’re willing, the Department of Development is willing to take a project where outsourcing has been raised as competition. And you have to have some evidence of that, some correspondence, some communication, probably some financial modeling, you just can’t throw it out, we might outsource. You have to validate that competition. They will then package that and take it to the job creation tax credit commission. I forget the authority, which will then make a recommendation to the controlling board. So outsourcing has, or at least recently, to my knowledge is being taking very much into consideration as international competition.

MR. GREEN: I think even more recently, I think over the last several years, the specter has been raised. It is a competitive thing. We do not call it outsourcing in the development world, you call it international competition.

You see it all the time, unfortunately, we have lost a couple of those. Like Jamie just said, it raises the specter of incentives and it raises the bar. We try to tip the scales and put more into the effort because of that international competition. It’s an interesting thing. As a matter of fact, I know in the Ohio legislature, there are some representatives that are trying to put some parameters on companies that are looking to outsource, which I don’t know how good of an idea that is.

MR. SCHJELDAHL: I see that later in the location decision process corporate managers must consider the media and public perceptions of their actions. As a result there is always an attempt to smooth the rough edges of tough decisions. The new consulting jargon is not to call it “offshore” but instead call it “right shore”; you put things on the right shore, the correct shore. Right shoring is the new terminology because it is not as harsh sounding.

MR. GROETZINGER: Jon Groetzinger. Over the past few years, the Cleveland area has had a net outflow of business, I am wondering if you have a specific example of a community that has done a good job of either attracting or retaining business, and can develop lessons learned for this area?

MR. GREEN: A good example of community. I think you can look at several examples. In the Cleveland area, the City of Strongsville has done a particularly good job of keeping and attracting companies. They have been a community that has had some wealth; they were able to use that wealth and buy some land and do some things to make development happen. They have been very aggressive and been able to get several companies there, and have been able to keep many companies there by doing things. They offer tax abatements, and they offer reduced land and those kinds of things, because
they have had the ability to do it, they have had the ability to buy land, and they have had an aggressive mayor and an aggressive administration that has looked at those kinds of things.

I am trying to think of another example.

MR. SISTO: Northern Kentucky, because they happened to get a Toyota plant.

MR. SCHJELDAHL: I can give you a couple of examples. You have to look at it on two scales, small communities and larger cities. In the small community category Wooster, Ohio is a very well run city in terms of its economic development program. They really have a good understanding of the process and have shaped their future and produced some good results. Good planning has been important to the city because Wooster has had a significant loss of jobs in recent years.

In the metropolitan area category, Akron has done a great job under Mayor Plusquellic. Akron is very aggressive in pursuing joint development agreements (JDA) and they have captured growth for themselves at the expense of some surrounding communities. And, I'm looking forward to Team NEO, the new Northeast Ohio economic development super organization, to try and bridge some of the battling that goes on for investment in this region. I would say, as a rule, compared to other parts of the country, Ohio does not do a very good job in preparing communities to compete.

MR. SISTO: Question up here.

MR. ERDILEK: Asim Erdilek from the Department of Economics from Department at Case Western Reserve.

My question is really a follow up on the previous question. Mr. Green pointed out when you look at Ohio among the 50 states, without the incentives, we are toward the bottom, with the incentives we are toward the top.

Now, my question to you is having these incentives, generous, relatively speaking, been effective? Has there been a study or a series of studies in terms of case studies or economic analyses to show to what extent these incentives have been effective? Thank you.

MR. SISTO: That is a very good question. I do not have a very good answer, because it is somewhat subjective. Ultimately, the site location decision takes into effect so many different factors.

Did it make a difference that you received $20,000 a year for seven years in refundable tax credits after creating 100 jobs? The company at the point of contact says, absolutely, and if I do not get it, I am going somewhere else.

I was talking to Don earlier about the Honda site location decision of the mid 70's. The State of Ohio put a package on the table, as did the state of Tennessee; and it is my understanding from numerous conversations with people in Japan who were involved at the time, that the decision, the recommendation was to locate in Tennessee.
They had the best incentive package, they had the best land, and they had the best highway access. Mr. Honda, said, no, we are going to Ohio. I like Governor Rhodes. He is my friend. I cannot embarrass him.

And, so, by fortune of fate, Honda moved to Marysville, Ohio. They put in a highway for them. They gave him a test track. They gave him all types of incentives for the astounding value of about ten or fifteen million dollars, which today is probably a medium size project. I think the package for Hyundai down in Alabama was reputed to be reaching 1 billion dollars, and that was a recent one. Thus, incentives obviously played very little decision in that because it was Mr. Honda’s personal decision, and they put aside Tennessee.

You can do all kinds of econometric modeling, but at the end of the day, the communities have put forth their best faith effort, they have gone from what we can -- you know, you’ve come to us because you’re a good location, we want you as demonstrated by the fact that we’re coming to the plate, and then the CEO’s wife decides where she wants to live, and that’s the ultimate decision.

MR. SCHJELDAHL: That is the truth.

MR. GREEN: I would echo what Jamie said, it is very subjective when you look at different things and you have to look at them.

I do not know -- there has not been necessarily studies done. You have to look at them almost on a case-by-case basis and see what affected the company, what affected that community, those kinds of things. That is probably not the answer you’re looking for, but it’s the truth.

MR. SCHJELDAHL: When a perspective client talks to me about a project and the first thing they ask is where can I get the biggest amount of incentives, I try to quickly back out of the door, because I don’t think they are going to pay their bill, because they are in trouble.

They are looking for a give away. You do not make decisions on where the incentives are. You go where the good location is, because once those incentives are gone, you are in the wrong location you are in trouble again.

MR. SISTO: There was a state legislator, and this is a question from my other panels, but there was a state legislator in Ohio who asked that very same question about 6 or 7 years ago.

He considered himself, I think a state protégé of Cusack on the Federal level and he was going to unilaterally disarm Ohio by removing our incentive programs. He felt they were corporate welfare. He felt at the end of the day, these other factors were more important. We are offering location, location, location. It is a good place to live, raise a family. We have an okay tax structure, but they are going to come because they want our work force and these other factors.

Well, that state legislator became Development Director under the new governor, Director Johnson, Bruce Johnson. His first project involved almost
day one, walking in the door, the Hyundai sweepstakes, where everybody was chasing Hyundai. Nate, what is the Director’s view of incentives now?

MR. GREEN: I no longer work for the department, so I cannot speak for them. Nevertheless, it is exactly what you said. He realized when he got there that competition is so fierce and Don can talk about this even better than I can -- the competition is so fierce among states, not even between the U.S. and Canada, just among states, that he said, we have all these great things, but now I understand what you guys are doing, because every state has to do it. Every state has to offer these tax credits, every state has to offer these grants, and every state has to do it.

If you look at the tax structure, maybe they are better, one or two, they are not the bottom; they are going to do something else to make it better for that company to move there.

The Hyundai example is great, they went to Alabama. Alabama’s does not have high taxes, and they threw everything they possibly could at them. What they are finding now is they may not be even able to pay the bill because they do not have the money in their budget.

However, that is why the director decided, you know -- I am looking at all these states, now I understand why you have to do it, because the competition is just so incredibly fierce. You have to do it, or you are going to lose the game.

You are not going to even be in the game. That is what is going to happen.

MR. KING: One more question.

MR. SISTO: Somebody has been holding the mike up here.

MR. RAE: Just a point and then a question. It has certainly been interesting after being lectured for many years, not just today by Gordon, about the subsidization of the Canadian lumber industry, to hear about the structure of investment of the United States, it has been education. But I was also head of a government and participated in several sweepstakes, so I know that game pretty well.

I guess my comment would be that I was always reminded of St. Augustine’s famous prayer and that was making me pure, “Oh, Lord, but not quite yet.” I think from an economic point of view, every economist you talk to is horrified by these incentives in various packages, because they do make a mockery of open and free markets. Nevertheless, they are a fact of life and it’s very difficult for me to see how a state or a province could unilaterally say we’re not going to play this game. Because, if you get out of the game, you are not going to do it. I would just observe that in Ontario, for a while, the previous government said they would not play the game on Ottawa, ended up not getting very much investment in the new government. Admittedly, from a different party, they just announced they are going to get back
in the game, and they put 500 million dollars on the table and said there is more to come.

I guess my question is this, it’s for the panel as well as for the audience, as a Canadian, looking at the Free Trade Agreement, the one thing that really bothers me is that under these rules, it’s possible for a U.S. company to get -- attract a very substantial amount of investment on the basis of a significant subsidy from both the local, the state, and the governments and then turn around and countervail American/Canadian competitive product on the basis of a Canadian subsidy, because under trade law, you don’t have to prove you’re pure in order to challenge somebody else’s subsidy. All you have to do is prove that somebody else is subsidizing.

So, I would say that for the purposes of discussion about the implications for trade, it is an absolute nonsense to continue to use countervailing and antidumping with respect to trade between Canada and the United States when you have this activity going on, which everyone knows it goes on, it’s highly recognizable.

We did a study, the Free Trade Lumber Council; we did a study of the subsidization involved in the decision to put a paper mill into Arkansas.

We proved the subsidies were somewhere in the area of 750 million dollars, you know, total over a ten-year period in terms of tax forgiveness, road construction, the whole smear, it did not matter.

We got this study, the student did it, and he very proudly showed it to me. I said that is fantastic. Unfortunately, it does not mean anything because it is just good for rhetorical purposes. That is why I am using it today.

But doesn’t it pose a question about free trade itself? The states themselves will work it out as an internal issue with the U.S. But, when it comes to the Canada-U.S. question, it seems to me it does pose a real problem for us given that this activity is very, very widespread. I think to use, Henry’s phrase, highly institutionalized.

MR. SISTO: I have a very simple answer. We just need to have exactly the same tax systems, with exactly the same basis upon which we tax; and then there would be no need for these incentive programs, but, as it exists, we are not comparing apples to apples. I think the incentive programs are reactions to different basis. In some cases, they are not. Some cases, they are above and beyond. But it is very difficult to say a VAT versus an income tax system versus a sales tax, or -- I mean, that’s one of the problems that companies have in making these decisions.

Under the WTO, I believe if you have a direct export subsidy, that is, per se, legal, otherwise, you have to prove that you lowered the cost of production per unit and what that damage is -- and I’m being very general in this description -- so if that process has failed on a national level, then, obviously, that needs to be revisited. I’m not defending incentive programs, because we all do it, but in Ontario and Ohio and Mississippi and Alabama, until some-
one can show that there was a realignment of the competitive forces in a
given market because of an incentive, it does not raise yet to the violation of
the WTO.

MR. KING: This was a very good session. Thank you very much. We
have lunch now.

Thank you very much.

(Session ended)