

FUNDING FOR BUSINESS TAX BREAKS SHOWS SKEWED PRIORITIES

State Gambles on Companies (and Loses) Instead of Investing in Students, Transportation

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The Fiscal Year 2009 budget proposed by Gov. Jon Corzine increases spending on tax breaks for businesses—tax breaks of questionable value, as some recent developments highlight—while investments in more tried and true economic development tools suffer.

More than ever, it is clear that New Jersey needs to spend state dollars in ways that invest in future economic growth and the wellbeing of residents. Increasing spending on business subsidies, while cutting higher education appropriations and failing to adequately the transportation system, is short-sighted policy that threatens New Jersey's prosperity.

WHERE THE MONEY GOES

The proposed budget increases funding by \$27 million for the state's Business Employment Incentive Program (BEIP), which would bring the total 2009 appropriation to \$219.5 million, including \$41 million toward paying back loans Gov.

Jim McGreevey ill-advisedly had the state take out to fund BEIP in Fiscal Years 2004-06. Governor Corzine has prudently eliminated borrowing to pay for BEIP, but still increases funding for the program.

Meanwhile, in spite of the importance of an educated workforce and the increasing difficulty that many students have paying for college, the proposed FY 09 budget would cut funding for public higher education by \$76 million. This is part of a disturbing trend that has seen New Jersey's commitment to higher education erode in recent years. The state's support has gone from 48% of public colleges' budgets in 1990 to 18% in 2008.¹ During that time, tuition and fees more than tripled.

And, though there is universal recognition of the importance that a safe, efficient transportation system has to a smooth-running economy, New Jersey's Transportation Trust Fund teeters on the brink of bankruptcy. Starting in 2011, the fund will contain only enough money to repay past borrowing; there will be nothing for construction or regular maintenance. That

situation has been made worse by the state's refusal to raise the gasoline tax since 1988 (it's gone up just once in 36 years) and to put car registration and other driving-related fees more in line with the wear-and-tear on roads and environmental degradation that come from the growing presence of heavy, fuel-in-efficient vehicles.

ZERO-SUM SUBSIDIES

BEIP has, over the 11 years of its existence, provided nearly \$540 million to hundreds of companies that moved to or expanded in New Jersey.² In just the past two years, BEIP has cost the state \$360.3 million, as more companies participate in the program and receive tax breaks.³ Under BEIP, companies get to keep a share of the money withheld for employees' state income tax in return for hiring specified numbers of people. It's part of a nationwide phenomenon: New Jersey, like other states and cities around the nation, is engaged in bidding wars against its neighbors in hope of luring companies and jobs. Battles for companies have become sort of a scorekeeping system, where politicians take credit for jobs "created" during their terms even though the jobs moved from someplace else in what is often a zero-sum game for the larger region.

Companies, meanwhile, have grown adept at playing states off against each other to get deals they say determine where they will locate. But evidence continues to mount that the subsidies are not as crucial to companies as state officials seem to believe. In fact, it turns out that companies often decide where to move and then misleadingly announce they won't come without a subsidy, effectively picking the pockets of taxpayers with the blessing of government officials who fear damage to the state's image if a company goes elsewhere.

PHARMA PHOLLIES

Bristol-Myers Squibb's case is illustrative. Its application to New Jersey for a BEIP grant was dated May 15, 1997 and stated that without the subsidy the firm would move its Seattle operation to Wallingford, CT.⁴ But the *Seattle Post-Intelligencer* newspaper carried a story three weeks earlier—on April 24—saying the firm had notified workers it was closing the Seattle operation of the BMS Pharmaceutical Research Insti-

tute and relocating it to Princeton.⁵ Disingenuously, it now appears, the BEIP application said receiving a subsidy would be a significant factor in the decision to move to New Jersey.

Then, earlier this year, Bristol-Myers Squibb announced layoffs of 4,300 workers worldwide due to upcoming expiration in 2011 of its patent for the firm's biggest money-maker, Plavix. Some of the layoffs will be in New Jersey, but the company has been tightlipped about the number. Patents give drug companies exclusivity on selling products; when a patent runs out, competition arises from identical, lower-priced drugs. It's a fact of life in the pharmaceutical business—so much so that New Jersey might be expected to inquire, before granting subsidies, whether a company moving to or expanding in the state faces any patent losses in the future. But that's a key question New Jersey doesn't ask before writing checks.

BMS received \$22.2 million in BEIP tax breaks over the last 10 years, among the top 10 payouts in BEIP.⁶ In return, it told New Jersey the subsidized jobs would remain in the state until 2012. Now, New Jersey's support for Bristol Myers Squibb is starting to look more and more like another example of "payoffs for layoffs."

Novartis, also facing generic drug competition as well as delays in federal approval of two drugs, has announced layoffs of 3,760 workers, including at least 240 at its East Hanover headquarters. New Jersey has given Novartis \$6.7 million in subsidies for jobs there.⁷

And Pfizer, the world's largest drug-maker, has announced it will cut 10,000 jobs worldwide; the New Jersey total has not been disclosed. The company—with facilities in Bridgewater and Bedminster the beneficiary of \$36.3 in subsidies from New Jersey, among the top 10 BEIP payouts—says patent expirations on blockbuster drugs, including top-seller Lipitor, drove the cuts.⁸

Altana, Inc., a pharma company (bought in early 2007 by another firm, Nycomed) has received \$1.7 million in BEIP payouts.⁹ Most of the money was for 80 jobs in Parsippany. Meanwhile, the company laid off 350 workers in 2006 at another BEIP site in Florham Park, effectively being compensated for the loss of 270 jobs overall in the state.¹⁰

Medco Health Solutions ranks in the top 10 for the size of its BEIP payout of \$20.2 million since 1997.¹¹ Still, the company has laid off hundreds of workers at sites in the state. Medco, a prescription drug mail order company, got its BEIP payout for 2,364 jobs in Franklin Lakes and Willingboro. In 2003 and 2004, it laid off 790 workers in Parsippany, Franklin Lakes and Montvale.¹²

These five companies alone have gotten more than \$86 million in subsidies from New Jersey. As they lay off employees and reduce their business, it once again casts doubt on the state's strategy of promoting economic development by investing in large private enterprises that are subject to market forces, rather than in public goods like the education and transportation infrastructure.

ENDNOTES

- ¹ Mann, Anastasia R. and Mary E. Forsberg. *Flunking Out: New Jersey's Support for Higher Education Falls Short*. 2006. (Numbers updated through 2008.) <http://www.njpp.org/rpt_flunkingout.html>
- ² State of New Jersey. Economic Development Authority. "Executed BEIP Grants, From 06/01/1996 to 02/29/2008." <http://www.njeda.com/web/pdf/BEIP_Activity_Alphabetical.pdf>
- ³ State of New Jersey. The Governor's Recommended Budget for Fiscal Year 2009.
- ⁴ State of New Jersey. Economic Development Authority. Business Employment Incentive Program Application from Bristol-Myers Squibb. May 15, 1997.
- ⁵ Ramsey, Bruce. "Seattle Science Lab is Moving to New Jersey; Bristol-Myers Plans Consolidation." *Seattle Post-Intelligencer*. April 24, 1997.
- ⁶ State of New Jersey. Economic Development Authority. "Executed BEIP Grants, From 06/01/1996 to 02/29/2008." <http://www.njeda.com/web/pdf/BEIP_Activity_Alphabetical.pdf>
- ⁷ State of New Jersey. Economic Development Authority. "Executed BEIP Grants, From 06/01/1996 to 02/29/2008." <http://www.njeda.com/web/pdf/BEIP_Activity_Alphabetical.pdf> and State of New Jersey. Commerce Commission. "Executed BRRAG Projects." 10/24/07.
- ⁸ State of New Jersey. Economic Development Authority. "Executed BEIP Grants, From 06/01/1996 to 02/29/2008." <http://www.njeda.com/web/pdf/BEIP_Activity_Alphabetical.pdf>
- ⁹ State of New Jersey. Economic Development Authority. "Executed BEIP Grants, From 06/01/1996 to 02/29/2008." <http://www.njeda.com/web/pdf/BEIP_Activity_Alphabetical.pdf>
- ¹⁰ State of New Jersey. Department of Labor and Workforce Development. "WARN Notices: October 2006." <<http://lwd.dol.state.nj.us/labor/lwdhome/warn/2006/10-06warn.html>>
- ¹¹ State of New Jersey. Economic Development Authority. "Executed BEIP Grants, From 06/01/1996 to 02/29/2008." <http://www.njeda.com/web/pdf/BEIP_Activity_Alphabetical.pdf>
- ¹² *Star-Ledger*. "Medco facility shutdown means 700 cuts." June 22, 2004 and Stecker, Sarah. *Taking Care of Business: Does it Cost too Much?* New Jersey Policy Perspective. 2003.

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