

Buying an Industry:
How Incentivizing Corporations Effects Local Economies

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Abstract

There has always been a debate regarding the monetary breaks and incentives offered to corporations in America, especially since the passing of the Tax Cuts and Jobs Act of 2017, lowering corporate interest rates to a flat 21%. Companies are offered incentives through various tax deductions, abatements, and credits for completing various goals outlined by the state. Additionally, states will offer infrastructure improvements, training costs, and turnover of assets at well below market value. While these processes are common in all fifty states, opponents of corporate incentivization argue companies are compensated too much as is, and money given to corporations can fix local issues. This report will look at both arguments for and against corporate incentivization as well as look at two examples including Alabama's acquisition of Mercedes-Benz and Virginia's recent deal Amazon. Finally, the impact beyond simple job and revenue creation will be discussed as it relates to Alabama's still failing schools and average infrastructure, as well as the impact of the impoverished Black Belt region on the state overall.

Following the Bidding War: How Incentivizing Corporations Effects Local Economies

As the economy has continued to grow and become more globalized, allowing individual companies to conduct business around the globe, federal and state governments have incentivized and subsidized businesses to boost future economic gains. Corporate incentivization is the practice of jurisdictions offering incentives and subsidies to corporations that otherwise would not be available to other groups or individuals. Each state has drafted laws outlining their incentive plans as well as explaining who is eligible for such funds. Since the Clinton administration, it has been argued whether incentivizing business is effective, or worth the investment. While there is no answer as to whether or not corporate welfare is effective due to the variance of specific situations, investment in an industry that leads to economic growth is indeed beneficial to any state, so long as the initial investment can be matched and returned through the industry.

What is Corporate Incentivization (Welfare)?

While this report will focus on corporate welfare at the local level, involving states recruiting corporations through business-friendly incentive plans, it is important to note corporate welfare is often associated with federal and state governments subsidizing industries in a financial crisis or to fund research processes. Corporations in key industries such as agriculture and energy have received subsidies to keep farms profitable and assist in the event of droughts, shortages, and natural disasters, as well as to maintain a healthy food supply and exportability (EWG, 2019). Additionally, farmers have received \$40 billion since 1995 for practicing sustainable farming techniques and adopting methods to promote environmental health. By incentivizing environmentally friendly farming techniques, the government can use the payments to persuade farmers into cooperating with suggested methods and procedures, while preserving the nation's agricultural lands.

In terms of subsidizing key industries in financial distress, during the recession of 2009, the federal government provided GM and Chrysler, two of the Big 3 US Automakers, with \$80 billion in loans through the Troubled Asset Relief Program (Bump, 2013). Although GM had lost \$71 billion in the two years before the recession and had seen its market share slashed from 71% in 1998 to 47% in 2008, the government viewed GM, as well as Chrysler, as essential businesses for the national economy (Wharton, 2018). Opponents of corporate bailouts pointed to the fact that the largest exporter of U.S built cars was Germany's BMW, and the "most-American" car in terms of percentage of parts produced in the United States was not GM, Chrysler, or even Ford, but Honda's Odyssey, which was built in Alabama with 75% of the vehicle's parts being produced in the United States (Wharton, 2018). While the argument that GM and Chrysler were not essential to the US economy could be made using these figures, the bailout preserved nearly 3 million jobs in the auto industry, at a cost of \$11,666 per job (Bump, 2013). By 2013, these positions produced \$105 billion in tax revenue to the government, meaning the bailout provided a gain of \$59,000 per job, in comparison to the zero dollars provided by unemployed autoworkers. Today, GM and Chrysler remain in business, along with their American suppliers around Detroit, and the companies have shifted their focus as part of the bailout agreement. New GM CEO Mary Barra has shifted the company's focus from production to profitability and more sustainable cars such as Chrysler's Chevy Bolt have entered the American market (Wharton, 2018). The bailout of GM and Chrysler has preserved an industry and led to necessary changes within their organizational structures to promote long-term sustainability and success.

At the state level, individual states use incentive programs to boost the prominence of their states through private industry. When offering incentives to corporations, a state's goal is to boost its economy through the creation of jobs and the development of production in industries

throughout their state. Appealing to the economic desires of a corporation allow a state to gain investment from companies in the long term and provide revenue to the state that otherwise would not exist without the presence of a company. For example, after winning the BMW plant in 1992, South Carolina invested in a graduate automotive engineering program to train students for work in the BMW plant. In return, BMW donated \$10 million to the development of the program, increasing educational opportunities within the state of South Carolina (Lyne, 2002). While some would argue the state did not need BMW to ultimately begin an educational program at a state university, it is undeniable that a multimillion-dollar donation from private industry is beneficial to the creation of public-funded projects. Along with the jobs and associated revenue streams, states incentivize corporations to boost investment in publicly funded projects such as education and infrastructure.

Incentives prove to be the most popular method of corporation acquisition at the state level, as each state has passed legislation outlining what they are willing to give up in return for a new industry and job creation. The incentives range from tax exemptions, abatements, to grants, infrastructure improvements, and training costs. In many states, incentives are becoming performance-based, which tier incentive amounts in accordance with the number of jobs and revenues created by a company's presence, as an effort to encourage continued growth in industry. For example, the Florida Qualified Target Industry Tax Refund (QTI) offers companies tax credits in return for job creation (Enterprise Florida, 2020). For companies in fields such as infotech, homeland security, and financial services, a tax credit of \$3,000 is provided for each new job created in a year (Enterprise Florida, 2020). This amount can increase with higher wages, exceeding the Florida average annual income. A combination of these items, following the state's incentive laws, provides corporations with an extra motive to move their

operations to a specific state. The following paragraphs will detail the types of incentives listed above, as well as examples of states offering said incentives.

Incentives

No individual or organization enjoys paying taxes, even the largest corporations with seemingly endless amounts of money. Knowing this, states include tax breaks in incentive plans. Every state already offers businesses tax deductions and credits annually to reduce a company's taxes. Tax deductions reduce the adjusted gross income of a company, potentially moving the organization into a lower tax bracket. These deductions generally include operating expenses such as wages, utilities, and depreciation of business assets. In states where income tax is a tiered system, where more income induces a higher tax rate, these deductions are crucial to reducing a company's tax burden. More favorable are tax credits, which lower the tax burden determined from the final adjusted gross income. Where a \$250 deduction may lower an entity into a lower tax bracket, a \$250 credit reduces the tax payment by \$250. Credits are often used as rewards for economic development and activities that the state views as favorable. In Alabama, the "Coal Credit" offers coal companies a \$1 per ton credit on increased coal production (Alabama Dept. of Revenue). Alabama views coal as an important piece of the energy industry and thus, offered tax credits for improved production in coal mines. Credits and deductions that reduce tax burdens assist businesses in continuing operations within a state, making the state more favorable for business.

Other tax breaks included in incentive programs are tax abatements. Tax abatements often relate to sales and property taxes and permit a business to withhold payment of these taxes for a certain period. Often offered to large corporations who are relocating to a new state, abatements allow companies to keep money that would be paid to the government to fund the

building or expansion of the business in the area and development of a more productive workplace. In 2009, the state of Tennessee offered Nissan \$98.3 million in property tax abatements in return for an expansion of the state's Nissan plant that would increase employment by 1,700 (Reicher, 2017). The state rewarded Nissan a tax break, as the expansion of the assembly plant would further boost the state economy and ultimately bring more tax revenue to Rutherford County and Tennessee in the future. While Nissan has received \$600 million in incentives since 2000, (Reicher, 2017) the company currently employs 12,000 Tennesseans providing \$200 million annually in salary and has invested \$7 billion total into Tennessee since beginning operations (Nissan Group of North America, 2019). This defeats the main argument of corporate welfare opponents who believe tax abatements are lost revenues for state-funded programs because the money initially invested is typically returned through employee income taxes, individual sales taxes from increased consumerism, and through sales and income taxes of suppliers in the major corporations' network. The initial deficit caused by the issuance of tax abatements is offset if the investment is made in a strong industry that will provide employment and goods or services to the citizens of the locality. In these situations, both the state and corporation win as the business entity will save money during initial construction and development, and the state enjoys increased revenue streams from the results of their investment.

In addition to tax breaks, states offer to cover the training costs of employees. While every state offers businesses tax breaks, grants, and abatements, it is not always guaranteed a company will get development and training costs covered on their behalf. The payment of training costs can range from paying employee salaries during an employee training period to paying for the instructors, space, and materials necessary to provide classroom instruction to trainees. Many manufacturing businesses, such as Mercedes-Benz in Alabama will negotiate on-

site training facilities that minimize the need to find and rent training spaces in the future. South Carolina, as one of the most aggressive states in terms of incentivizing corporations for jobs, offered airplane manufacturer Boeing \$33 million in state-funded employee training programs as part of their 2010 agreement (Grunbaum, 2010). The payment of training fees, along with low union participation in South Carolina, serves to reduce Boeing's worries about the capabilities of South Carolina workers in an airplane manufacturing business and aided the company in choosing the Palmetto State as their new home. Providing employee training to a corporation in a new state reduces the likelihood of the state selecting a different location for a more established workforce. If employees can learn the necessary skills through training, the company receives similar effectiveness from the state that it would have gotten in a more established market.

Infrastructure and site development costs are also non-tax incentives that attract companies to an area. A relocating company can minimize initial startup costs when the state they are moving to offers to develop their future site, including improvements to sewer systems and preparing the land for construction, as well as improving surrounding ports, interstates, and airports. In 1992, South Carolina committed \$40 million to improve the runway at a Spartanburg airport in anticipation of the BMW assembly plant (McDavid, 2011). BMW needed a local airport with the capabilities of servicing cargo planes to quickly export finished products. In a more recent example, Huntsville, Alabama began a nearly \$47 million infrastructure project in anticipation of a new joint venture automobile plant operated by Toyota and Mazda. The project includes a railroad spur extension that will bring a rail system closer to the factory site, as well as improvements and expansion of Old Highway 20 in Huntsville. (Gattis, 2019). The highway improvements include expanding the road from two to four lanes around the facility and creating a highway overpass over the railways to increase the flow of traffic. These infrastructure

improvements increase potential productivity, thus increasing the eventual return to the state for providing improved infrastructure.

Arguments Against Incentives

Despite each state having corporate incentivization measures similar to those listed above, many observers oppose incentivizing corporations in exchange for jobs stating that corporations are not providing enough tax revenue to state government programs, other causes are more useful and worthy of funding, and that incentivizing corporations gives the business too much power to manipulate state governments for more enticements. Many arguments for or against corporate subsidies lay along political lines, allowing observers to form their opinion based on their personal beliefs regarding private sector subsidies, public works funding, and government welfare programs. The following section aims to analyze the arguments of opposition to corporate welfare and how corporate welfare affects the ability of a state to achieve other objectives while subsidizing businesses.

The biggest argument against corporate incentivization is that large corporations do not deserve additional incentives because, through existing subsidies and tax structures, many corporations can make billions annually in revenue while paying nearly no income tax. As mentioned above, there are tax credit and deduction programs that allow companies to reduce their tax burden each year. Additionally, corporations can deduct business expenses from their earnings to lower their gross profits. The ability of large corporations to create massive expenses each year, paired with credit programs allows companies like Amazon to report almost no net income in a year while making billions of dollars in revenue. In 2018, Amazon paid \$0 in federal income tax, despite posting \$11.2 billion in profits thanks to various deductions and loss

carryovers from previous years (Stampler, 2019). It was the second straight year Amazon paid zero federal income tax.

Opponents of further incentivizing the corporations believe that a state is fueling the greed of corporations while losing revenue to fund public programs. Opponents such as Alexandria Ocasio-Cortez, the congresswoman from New York, argue that money used in corporate tax breaks is money that would be better spent on public interests. In November 2018, the congresswoman tweeted, “Amazon is a billion-dollar company. The idea that it will receive hundreds of millions of dollars in tax breaks at a time when our subway is crumbling and our communities need MORE investment, not less, is extremely concerning to residents here” (Ocasio-Cortez, 2018). Ocasio-Cortez argued that providing money to a corporation such as Amazon would prevent New York and New York City from investing in infrastructure and community programs. Agreeing with this notion, New York State Senator Michael Gianaris stated, “We’ve got three billion dollars to spend, how would you spend it? Amazon would be very low on the list” (Raskin, 2019).

While Amazon will receive up to \$3 billion in incentives from New York and Long Island City, all of which is performance-based, the incentives are not being presented as a lump-sum check. \$1.525 billion in incentives is directly related to the creation of 25,000 jobs in Long Island. New York could withhold \$61,000 per job under 25,000 Amazon failed to create (Noto, 2019). Thus, in exchange for jobs and increased revenues from employee income taxes and sales taxes, the state was willing to pay \$48,000 per job to acquire an agreement with the world’s largest company. As a reward, the state government reduces the amount of taxes owed by the business, because without the business, these revenues would not exist anyways. In February 2019, Ocasio-Cortez balked at the reported tax breaks offered by New York to Amazon stating,

"we could invest those \$3 billion in our district ourselves if we wanted to" and argued that the \$3 billion could be used to hire more teachers and fix the NYC subway system (Miles, 2019). In response to opponents' criticisms, Amazon withdrew from the New York deal and decision that cost the state \$27 million in future revenues according to Gov. Andrew Cuomo (Miles, 2019). Unfortunately for supporters of the deal which was estimated to have a 9:1 ratio of revenue to subsidies in the company's first 25 years, the state lost the ability to gain money through the private sector that would have been used to fund the public projects mentioned by the deal's opponents. Cuomo stated that the Amazon deal would offer "the highest rate of return for an economic incentive program the state has ever offered" with the potential for 40,000 new Amazon jobs, 1,300 construction jobs, and 107,000 total jobs both at Amazon and in the company's network (Raskin, 2019). In Washington, a state with no income tax, Amazon provided \$250 million in taxes through the state's "Business and Occupation Tax" that charges a sales tax on the gross receipts of a company (Day, 2018). This does not include sales tax paid by Amazon customers, or B&O revenues generated by Amazon employee spending. In the incentivization process, states such as New York can make deals that will concede some tax revenues in the short term to generate higher returns in the long term. In Amazon's case, the company was willing to give up as much as \$3 billion over 25 years for the potential to make \$27.5 billion in return.

In addition to increasing state tax revenues through operating activities and employee salaries, businesses also engage in community involvement programs and private investment that help improve their local communities. A misconception regarding tax revenues is that increased government spending guarantees improvements in areas such as education. While funding is important, spending and results are not directly correlated. Massachusetts, the number one state

in K-12 education, was outspent by seven other states in per-pupil spending (Wigfall, 2017). Additionally, Utah, who spent less money per pupil in K-12 than all other 49 states and Washington D.C, ranked 14th out of 51 in K-12 educational performance (Wigfall, 2017). While it is simple to argue states such as Mississippi or Alabama who routinely rank in the bottom of academic performance should just spend more money on education, factors outside of government spending, including political agendas and regional customs play larger roles on education than the number of available government funds.

Although private sector companies have no required obligations to donate to the public sector, private businesses have begun investing in state education at both the K-12 and collegiate levels. In 2002, BMW provided Clemson University with \$10 million to begin an automotive engineering program and start the International Center for Automotive Research (McDavid, 2011). The programs will ultimately help BMW as a corporation and create future BMW employees, but it also provides funding to a university, creates jobs in education, and provides educational programs to enhance future automotive engineers with the knowledge necessary in the industry. BMW has also invested in South Carolina's K-12 educational system, aiming to help improve the state's educational system. A benefit of investment in corporations at the state level is increased private investment in state programs such as education that provide mutually beneficial resources to both the state and corporation.

Another argument against providing corporations with incentives is that it gives big businesses too much negotiation power with states. The ability of states to recruit business opportunities through incentive packages allows companies to pit states against each other, driving up the price of acquiring businesses to a state. When Alabama provided Mercedes with \$258 million in incentives in 1993, many southern states believed that the price had been

significantly raised for acquiring businesses. Alabama paid more than any other southern state had paid for similar and larger sized foreign automotive plants. A 1993 *LA Times* article argues Alabama hurt other states because Mercedes was coming to the United States regardless of what states offered to avoid high labor costs in Germany (Nauss, 1993). While Alabama would not have received an economic boost, the gains on the US economy would have likely remained the same had Mercedes gone to another state. Discussed in more detail in the case studies section, Mercedes-Benz was responsible for the shift from textiles to automobiles in Alabama, but also changed the rules for corporate incentivization as Mercedes was able to pit Alabama against the Carolinas to increase their reward for opening an American plant.

Arguably the biggest culprit of manipulating state legislators through threats of disassociation is the airplane manufacturer Boeing. Providing over 69,000 jobs in Washington, Boeing is the state's largest private employer. The company provides many high paying jobs and indirect tax revenues through employees and suppliers but their relationship with Washington is fragile. After a two-month strike by union workers in Washington, Boeing seized operations of one of its Washington plants and moved all phases of production to Charleston, South Carolina (McDavid, 2011). This move not only moved 3,500 jobs across the country but proved to Washington that Boeing was willing to uproot operations if they felt disrespected by the state. Thus in 2013, Boeing demanded new tax incentives from the state and threatened to move operations if their demands were not met. Washington's government ultimately passed an incentives bill, providing Boeing with tax breaks through 2040 to encourage Boeing's growth within the state (Shukovsky, 2019). Former Washington Governor compared the deal to a hostage situation, stating, "What happens is these corporations put a gun to your ribs and said you're going to lose 20,000 jobs unless you get a tax break." (Shukovsky, 2019). Pertaining to

Boeing, opponents of corporate welfare are correct in saying corporations become too powerful in state government affairs. States must work to limit the power a corporation has over its budget and spending but must also protect investment within their state's economy. Recent performance-based packages such as New York and Virginia's deals with Amazon provide examples of how to limit a state's control in negotiations. From day one, these states demanded results in exchange for tax breaks, therefore limiting the power of the company to hold the state hostage in future negotiations. Pulling out of their deal with Virginia, Amazon would lose \$22,000 per job revoked, providing the company a reason to stay in the state. The key for states to protect their interests in incentives deals is to make incentives refundable in the event the company does not produce, and provide clear terms regarding the length and magnitude of incentive deals to avoid hostage situations such as Boeing's dealings with Washington.

Regardless of the strong opinions of opponents, states will continue to incentivize and subsidize businesses to promote economic growth within their borders. Of the arguments against corporate welfare mentioned above, all can be negotiated and legislated in manners which ensure a benefit to both the state and the company over time. In the ideal incentives plan, a state is offering tax breaks to secure a higher return on investment from the corporation over time. In New York, Gov. Cuomo and his team assessed the revenue production possible and offered a safe incentives package that the state is sure it will recover. While Alabama threw cash at Mercedes in exchange for jobs, current deals are more thoroughly planned, and states introduce performance clauses to protect their interests. Through tax breaks, corporations can expand upon their interests in a state, promoting the growth of employment and business practices conducted in said state. While corporations cannot grow so powerful that they control state governments, such as the case with Boeing in Washington, state and local governments can use incentives to

foster positive, beneficial relationships with corporations to improve the lives of state citizens and the corporation.

Case Studies

The following sections will look at two case studies of how these relationships have formed and the consequent impact of the incentives plan on the state. First discussed is Alabama's acquisition of Mercedes-Benz in 1993 and how the state economy has shifted since car production began in 1997. Lastly, Amazon's newly announced HQ2 deal with Virginia, as well as projections of the on-going relationship between the two parties, will be analyzed and discussed. The following case studies will provide real-life examples of the effects of corporate incentivization in exchange for jobs and industry growth within a state.

Mercedes-Benz in Alabama

Beginning with BMW's 1992 announcement of a new automobile plant in Spartanburg, South Carolina, foreign car manufacturers have been lured to the Southeastern US. From Tennessee to South Carolina, Georgia, Alabama, and Mississippi, the southern states have become a hotbed for foreign transportation development, citing low operations costs and a non-unionized workforce. While Detroit bolstered experience in the automobile industry and an established manufacturing and supplier network thanks to Ford, GM, and Chrysler, the south offered these new industries with a skilled workforce, looking to improve their livelihoods and fill the void left by the textile mills moving overseas. The south provided ideal conditions for a company looking to decrease their payroll and operating expenses overseas, and the bidding war that took place among these states only further incentivized the companies to make the move.

In the early 1990's Central Alabama was a rural economy, covered in farms growing cotton and soybeans. Tuscaloosa, home of the state's flagship university was home to two

companies: Peco Foods, a poultry provider, and JVC America, an electronics company that produced audio equipment (Taylor, 2018). The state was viewed as a laughingstock to the rest of the country, ranking 43rd in per capita income and 49th in education, only topping neighbor Mississippi (Brooks, 2002). In addition to poor economic and educational performances, the state was still viewed as a backward society, where the Confederate Flag flew above the state capitol in Montgomery, symbolizing the citizens that still clung to their segregationist ideals (Underwood, M. 2015). As textile mills began ceasing operations within Alabama, the state was in desperate need of attractive, new jobs for its citizens. In 1992, Governor Jim Folsom, Jr., recognized these issues and had the confederate flag lowered from the Capitol in his first week in office. In a 2015 interview, Folsom recalled that "By-and-large, the state chamber of commerce and the business community were very uncomfortable with it from the standpoint of economic development." (Underwood, M. 2015). The removal of the flag served as Folsom's first act towards building a new Alabama in the public eye, and whether it's removal made a difference, Alabama would soon reach a deal that would change the state's economy for the foreseeable future.

In 1993, Mercedes-Benz shocked the business world when the German corporation announced its plans to develop its first North American assembly plant in Vance, AL. Despite being "totally unknown to Germans, such as Adreas Renschler, a member of the site selection team, and having zero representation in the initial list of 62 prospective sites, Alabama was able to attract Mercedes-Benz to Vance (Myerson, 1996). The small town along Interstate 20, with a population of 300 and two sawmills, had been selected over projected favorites, Durham, NC, and Charleston, SC. To beat the Carolinas, states that already had German transportation companies operating within their borders, including the new BMW plant in Spartanburg, SC,

Alabama was able to match and exceed the two bigger, more populated, and more experienced states in terms of incentives. When compared to neighboring states in the south, Alabama had to be willing to bet the farm on the acquisition of Mercedes to win the rights to the new automotive plant, and that is exactly what Governor Folsom did.

Known in central Alabama as “The Folsom Incentives Plan,” Mercedes received a staggering \$238 million subsidy package that included construction and infrastructure improvements, training costs, and tax abatements. The 1,000-acre plant site was initially paid for by the state and sold to Mercedes for \$100. This construction included a \$35 million training facility for new employees. Initially, Alabama also paid employee salaries, as they covered \$45 million in payroll during the employee training period. Lastly, Folsom pushed legislation through the state government that allowed Mercedes to use funds that would have been charged as state income tax to pay off their construction debts (Brooks, 2002). At the beginning of the Tuscaloosa-Mercedes relationship, Alabama was funding Mercedes operations while receiving nothing in terms of income taxes. A state with many limitations and economic needs seemed to have over-paid a global conglomerate for its presence. Despite the automaker providing 1,500 jobs to the area, they came at a cost of \$169,000 per position in taxpayer money (Brooks, 2002).

Despite the initial hourly jobs paying \$12.80 an hour, roughly double the \$6.75 average hourly wage in Alabama manufacturing plants, the public outrage following the release of details regarding the incentives plan proved costly to Governor Folsom’s re-election (Myerson, 1996). Alabama paid more than seven times what Tennessee paid in 1985 for a Saturn plant and almost three times more than what South Carolina had paid for BMW the prior year. In addition to substantially raising the price of winning over corporations in the south, Governor Folsom also withheld details regarding an agreement to buy 2,500 vehicles from the plant for government use

for \$75 million, as well as his plans to use the National Guard to develop the plant site in Vance instead of awarding a private contractor the job (Gardner, 2001). As these details were exposed, citizens grew weary of the deal, and gubernatorial candidate Fob James used Mercedes as his ticket to winning the 1994 election. James campaigned strongly against the Mercedes deal and included former Tennessee governor Lamar Alexander, the man responsible for bringing Saturn to Tennessee, to inform the public on the mistakes of Folsom. In the end, Mercedes was opening a new plant in Tuscaloosa due to the negotiations of Governor Folsom, and the reward was a 10,000-vote defeat in his campaign for re-election (Myerson, 1996).

Despite the initial backlash and newly elected Governor Fob James' announcement that the state would not honor the agreement to purchase 2,500 vehicles for state use, the Mercedes plant began operations in 1997. As the first cars rolled off the assembly line in September of that year, Mercedes and the initial 1,500 plant employees had created a foundation that has altered the make-up of Alabama's economy. Since opening, Mercedes has announced numerous company-funded expansions of the Vance plant and introduced new vehicle models to the plant's assembly lines. In the first full year of operations, the Vance plant created 68,000 M-Class sedans and due to their popularity and increased demand, Mercedes immediately invested \$80 million to increase production to 80,000 vehicles annually, starting in 1999 (MBUSI). The facility expanded again in 2014, allowing for two new models to be introduced in 2014 and 2016. With the introduction of the GLE Coupe to the plant in 2016, the Alabama plant was producing three different models and assembling a total of 300,000 vehicles a year, a 341% increase in production from original output in 1997 (MBUSI). With higher production came more jobs and higher wages, as the assembly plant now employs 3,800 workers earning an average of \$28 per hour (MBUSI). What was once considered a risky gamble with minimal

reward to Alabamians, has become one of the state's greatest investments, reinvigorating the economy of Tuscaloosa County.

While Mercedes chose Tuscaloosa as the home for its first US assembly plant, the company's presence has created and expanded the auto industry across the state. Having lost more than 83,000 textile jobs since 1993, Alabama was in dire need of an influx of good jobs (Taylor, 2018). The combination of incentives and early effectiveness from employees received by Mercedes-Benz was noticed by other automotive giants around the world. Following Mercedes' lead, Honda and Hyundai opened assembly plants in the state in 2001 and 2005, respectively. Additionally, Toyota opened an engine manufacturing facility in Huntsville in 2003 (Brooks, 2002). With the addition of the three Japanese automakers, the state served as the international hub for four major foreign automotive companies, later increasing the state's exporting ability and global reach. Today, six automotive manufacturing companies including the four aforementioned major automakers, and over 150 supplier companies operate within the state (Alabama DOC). In total, the automakers and supplier network have created over 40,000 jobs to date with an average annual salary of \$70,680 without the presence of unions (Chivers, 2017). Compared to the statewide median household income of \$48,123, a single autoworker in the state has the potential to earn over \$22,000 more than the average family residing in the state. As the auto industry within the state continues to grow, more Alabamians will have the opportunity to improve their wealth without leaving the state.

In addition to creating desirable jobs and beginning the automotive revolution within Alabama, Mercedes has also been an integral partner in re-structuring the rural Alabama economy into one based on manufacturing and global exports. Currently, Alabama is the #3 exporter of automobiles in the United States, trailing only Michigan, the home of the American

big 3 automakers, and South Carolina (Underwood, J. 2019). In 2017, Alabama was ranked twenty-second in exports among the fifty states and set a new state record for annual exports in terms of value by shipping \$21.7 billion of goods overseas (Int'l Trade Administration, 2017). Of this \$21.7 billion, \$10.9 billion in exports came from the transportation equipment industry, meaning automakers and suppliers account for 50.2% of the state's exports. Alabama has used exports to build a globalized state economy, as 88 nations received transportation equipment from Alabama in 2017 (Underwood, J. 2019). As the transportation global network continues to grow, the state will be able to discover new trade partners for other key state industries including chemicals. Under Mercedes lead, the state's automakers have grown to produce roughly one million vehicles a year, placing them as the fifth-best automotive assembly state nationally in terms of vehicles produced (Underwood, J. 2019). While one could argue that an automaker could have come to Alabama without Mercedes' initial presence, it is undeniable the effect having a globally respected brand operating locally had on the state. When referring to Mercedes' decision to build in Vance, Secretary of Commerce Greg Canfield said, "the decision was the key that opened the doors to an industry that continues to create new opportunities today." (Chivers, 2017). As a major competitor in the global automobile export market today, the acquisition of Mercedes has proved to be essential to the refurbishment of Alabama's economy.

New opportunities and growth are already on the horizon for Mercedes-Benz and Alabama, as the German automaker announced in 2017 a \$1 billion expansion of the Vance plant that will include the construction of an electric vehicle (EV) battery plant for future Mercedes product lines (Tomberlin, 2017). This expansion will provide more jobs to Central Alabama as well as provide an entryway into a new product line and area of development for automakers and their suppliers. The new battery factory serves as an opportunity for Alabama to expand research

and development opportunities in a new market, according to Sec. Canfield who stated, “Alabama is now going to be in the forefront with EV technology and with the construction of a new battery plant and the facility, this is going to be incredibly advantageous for technology in the state, but also in terms of providing clean energy and customer choice for Mercedes.” (Tomberlin, 2017). In addition to Mercedes’ battery factory expansion, Toyota and Mazda announced in 2019 the creation of a \$1.6 billion joint venture in Huntsville, AL, which will provide 4,000 jobs to Limestone County (Thornton, 2018). The plant's early projections are to produce 300,000 vehicles a year, which will equally be split between Toyota and Mazda vehicles, adding to the state's production and exporting abilities. Slated to begin production in 2021, the joint-venture company will bring a new major automaker to the state in Mazda and allow Toyota to assemble cars around the engines they were already producing in the state. 27 years after Gov. Folsom and Mercedes officials announced the first assembly plant in state history, Alabama is still expanding on what has become the state's top industry. The decision to give Mercedes \$250 million in 1993 has allowed Alabama to gain two \$1 billion projects entering the new decade.

Corporate welfare was perceived as a wasteful action in terms of building the auto industry in Alabama. Paying \$169,000 per job at a factory in a town of 300 was not considered as the answer to a state's economic issues. Yet, as Andy Levine, a marketing director from DCI, says regarding the Mercedes incentives agreement, "It’s probably the smartest investment any state has ever made.” (Gross, 2008). The state of Alabama began building an auto industry by offering \$258 million to Mercedes-Benz in exchange for an assembly plant. Today, the state has provided roughly \$1 billion in incentives to automakers and received over \$10 billion in return investment through expansions and upgrades to those original facilities (Gross, 2008). While

some will still argue that money would have been better invested in the state's education department or other industries, there is no way to prove that education would have improved solely from funding. What can be proved is that investment in the industry has transformed Alabama into one of the best transportation equipment manufacturers and exporters in the nation, providing a state that once depended on the disappearing textile industry a way to improve the economic status of Alabamians and the state as a whole. A decision that cost one governor his job was praised by a succeeding governor in 2017 when at the 20th-anniversary celebration of Mercedes in Alabama, Gov. Kay Ivey said, "Our state's manufacturing sector was reinvigorated when Mercedes-Benz, a global automotive giant, chose to invest in Alabama... Alabama is an auto industry giant because Mercedes-Benz chose to be an auto industry pioneer in Alabama." (Tomberlin, 2017).

Amazon in Northern Virginia

Introducing Crystal City

The Commonwealth of Virginia boasts the top ranked work force nationally, with the highest concentration of computer science professionals in the United States. The technologically sound workforce, combined with Virginia's commitments to improved education at the K-12 and collegiate levels, make the state a strong competitor for tech industry corporations. In November 2018, Amazon, the world's largest tech company, announced that its new national headquarters would be split between New York City and Arlington, Virginia. After receiving nearly 240 bids from localities across the United States and Canada, Amazon picked to place an HQ2 in Virginia's Crystal City region, not because of cash incentives, but because the state had a strong work force and were willing to improve infrastructure and education to better serve the company. The initial announcement would split 50,000 new tech positions across the two states. Yet, after

the backlash from residents and politicians in New York, as mentioned above, Amazon scrapped their Long Island plans and shifted their focus solely to the Arlington site. Arlington warmly welcomed the global conglomerate to the area and quickly began drafting plans for a future campus in the newly branded "National Landing" area that encompasses parts of the Pentagon City, Crystal City, and Potomac Yard districts in Arlington and Alexandria. For many residents, Amazon is viewed as the company that will bring Crystal City back from the dead, in terms of business and popularity.

While much of the Washington Metropolitan area is highly developed with residences and businesses supported by the presence of federal agencies, the Crystal City section of Arlington has needed a rebrand since the early 2000s. The area, named after a large crystal chandelier in an apartment building from the 1960s, was first developed as an office development for federal organizations. The proximity to Washington D.C and the Pentagon made the area a prime location for government agencies and the armed forces. The area flourished for roughly 30 years, but from 2000-2005 17,000 federal jobs left Crystal City (Morris, 2018). In this time, the Navy Air Systems Command, Patent and Trademark Office, and Inspector General of the Army all relocated or were cut by the national budget, leaving 4.2 million square feet of office space vacant (Meyer, 2016). Office vacancy has increased from 1.5% in 2000 to 18.3% in 2018 (Morris, 2018). The sharp increase in vacancy was caused by the closing of businesses that relied on the presence of the recently relocated government workers. Similarly, the Crystal City Shops, the areas underground shopping mall saw more vacancies as people started traveling to nearby Pentagon City and Springfield for shopping. Despite recent rebounds through the addition of co-working spaces and start-up businesses, Crystal City needed

a venture like Amazon to rebuild the area to compete with the other prominent areas of Arlington and Alexandria.

Crystal City's Advantages

Despite Crystal City's fall from prominence and shift towards a ghost town district in a highly developed and bustling region, the old government sites provide Amazon with the prime real estate to operate their global corporation. In terms of travel infrastructure, the area provides Amazon employees and visitors with close access to all modes of transportation. Crystal City neighbors Reagan National Airport, which provides roundtrip services to 100 U.S cities (Tyler, 2018). The district is also within 40 miles of Dulles International and Baltimore-Washington International airports, providing global travel hubs for personnel coming to or leaving the HQ2 facilities (Tyler, 2018). Locally, the prospective site will have access to the Metro, a rail system that connects Northern Virginia to DC and parts of Maryland, as well as the Virginia Railway Express that connects the outer portions of Loudon, Fairfax, and Prince William Counties to the immediate D.C suburbs (Tyler, 2018). Lastly, Crystal City is connected to local and national highways and interstates, one of which is a 15-minute drive from Capitol Hill, allowing Amazon lobbyists to make regular, quick trips to the Capitol to protect their interests in terms of corporate governance (Tyler, 2018). No other location in Amazon's search could provide the combination of multiple convenient modes of travel as well as local access to those in power.

In addition to ease of travel, Northern Virginia also provides Amazon with a talented workforce that is well-educated in STEM subjects. 49% of all residents of the Washington Metropolitan Area have earned at least a bachelor's degree, making it the most highly educated region in the United States (HQNova, 2018). With that education, the area hosts the largest pool of computer science and the third-largest cohort of software engineers in the country (HQNova,

2018). These fields are critical to Amazon's global web network, as well as to their Web Services division that has developed software and websites for some of the world's biggest companies and the United States government. The education system is also ranked #1 in the nation by CNBC, with elite universities such as the University of Virginia and Virginia Tech (Cohn, 2019). K-12 education is also strong in Virginia with two top school systems in Arlington City Schools and Fairfax County Public Schools, which is home to Thomas Jefferson High School, the #1 public STEM high school in America (HQNova, 2018). As a company that requires the best computer scientists and software engineers available to continue operations, Amazon selected the most qualified site in Northern Virginia.

Non-Monetary Incentives

Virginia will continue to improve education and infrastructure for the arrival of Amazon, already approving \$195 million in infrastructure improvements around the prospective campus site. These improvements will include a pedestrian bridge connecting the Amazon campus directly to Reagan National Airport, as well as two new metro stations in Crystal City and Potomac Yard that will also service the Amazon campus (Cain, 2018). In addition to these major projects, the state will improve sidewalks and pedestrian crossings along Route 1, allowing people to move safely around the various areas of the Amazon campus (Cain, 2018). These approved infrastructure projects will not only create jobs for Northern Virginia's contractors but also improve travel in and out of Crystal City, making the area more attractive to businesses and residents alike.

Educationally, Virginia is determined to increase involvement in STEM at both the K-12 and collegiate levels. As part of Virginia's proposal to Amazon, the state promised to invest \$50 million over the next 20 years to improve tech education and internship availability to students in

the field (HQNova, 2018). The goal of these programs is to increase the number of students who move on to pursue computer science or similar degrees from state universities. At the collegiate level, Virginia's goal is to double the number of bachelor's and master's degree candidates in computer science through Virginia Tech (HQNova, 2018). The school is opening a \$1 billion innovation campus in Alexandria to foster the growth of the program and links students to Amazon and other area tech companies. The state has already approved \$250 million towards the innovation campus, as well as another \$125 million towards a STEM master's program focusing in computer science at George Mason University's Arlington campus (Clabaugh, 2019). The university plan will increase the number of computer science graduates by 25,000-30,000 in addition to current graduate numbers, over the next 20 years (HQNova, 2018). Virginia will become a more educated workforce and be able to expand itself in the tech industry, while Amazon will gain highly educated and trained employees for local operations.

Monetary Incentives

Virginia's commitment to infrastructure and education, especially in STEM, allowed the state to earn Amazon's HQ2 while offering fewer incentives than many other competitors. Virginia offered Amazon a cash grant of \$550 million, or \$22,000 for each job the tech company promised to bring to the area (Cain, 2018). This grant is performance-based, however, as if Amazon either cancels their plans in Northern Virginia or decreases the size of HQ2, Virginia has the right to withhold \$22,000 from the \$550 million for every job position under 25,000 jobs total that Amazon fails to create. Therefore, unlike Alabama's agreement with Mercedes-Benz, no cash is guaranteed when construction begins on the plant. Arlington County also agreed to pay \$23 million in the next 15 years from revenues earned from the county's "Transient Occupancy Tax," a tax added to hotel room rates within the county (Cain, 2018). The county

believes Amazon will increase the flow of business travelers to the area, therefore increasing hotel occupancy and occupancy tax revenue collections once the company is fully operational in the area. Although not immediate, Amazon could also receive \$22,000 per job again in roughly a decade, as Virginia's government will compensate Amazon again if the company provides a projected 12,850 jobs in addition to the initial 25,000 jobs during their phase two additions to HQ2. In total, Amazon could receive roughly \$750 million from Virginia in incentive cash, yet all but \$23 million is performance-based (Cohn, 2019). Therefore, Virginia was able to secure an investment from one of the world's largest companies through a strong workforce, infrastructure, and promises to invest in future infrastructure.

In discussing the HQ2 search, Amazon's Vice President of Public Policy, Brian Huseman stated, "It's not just monetary incentives, but it's looking at the comprehensive environment to allow companies to flourish" (Cohn, 2019). Virginia's top-ranked workforce and commitment to educational programs in STEM assisted the state in winning Amazon's bid while offering 11 times less money than other states. Amazon received 238 bids from across the United States and Canada in its search for the company's new home (Cohn, 2019). While Amazon was looking for tech-minded, business-friendly locations, some bids included massive cash incentives to make the company overlook flaws in either the workforce or business-friendliness of the state. The two largest bids were Maryland's \$8.5 billion and New Jersey's \$7 billion incentive packages (Cohn, 2019). Neither site was considered a favorite, however, because New Jersey and Maryland rank 45th and 31st respectively in business-friendliness according to CNBC due to high tax rates and regulations. When explaining the decision to pick Virginia over the big spenders, Brian Huseman said, "It turns out that tech talent was the biggest driving factor for us. Both tech talent on day one, but also tech talent in the future" (Cohn, 2019). While many companies, such as Mercedes-

Benz in 1993 and Boeing in both South Carolina and Washington will adapt to an area in exchange for more cash, Amazon took a wholistic approach to HQ2 and ultimately determined the combination of incentives, workforce, commitment to technology, and business climate in Virginia outweighed the other 237 potential HQ2 sites.

Effects on Virginia

As for Virginia's gains, the state will receive an estimated 25,000 tech jobs with an average salary of \$150,000 annually. Amazon's high salaries will increase Arlington County's average annual salary of \$88,449 by 6.5% to \$117,651, almost \$70,000 more than the national average (Chmura, 2018). While there is an abundance of high paying jobs in the DC region, Amazon's investment will bolster the area's technology prowess, providing a new avenue for the many computer scientists and software designers in the region. Additional job growth is expected, as in 2018 Chmura Economics reported the presence of Amazon in Arlington is expected to raise the county's job growth rate from 1.2% to 2.2% annually until 2030, meaning the area would gain an estimated 55,000 jobs before Amazon becomes fully staffed and operational in 2030 (Chmura, 2018). In terms of investment, Amazon will directly provide Virginia with \$3.7 billion in investment through \$90.9 million in capital expenditures, which are projects including buying and renovating buildings, and \$3.6 billion in operations spending including salaries and supplies (Chmura Economics, 2018). Through the ripple effect, which includes Amazon's direct investment as well as spending by other businesses and consumers with money provided by Amazon's investment, Virginia will see a total of \$6.3 billion in expenditure and operations spending between 2019 and 2030 (Chmura Economics, 2018).

As for tax revenues, Chmura estimates that in 2030 alone, the first year of full operations at HQ2 in Arlington, Virginia, will receive \$346.7 million in tax revenues from all direct and

indirect Amazon operations, including \$224 million directly from Amazon (Chmura Economics, 2018). At this rate of revenue collection, Virginia will be fully refunded its \$573 million cash grant by 2032, creating a large revenue stream to complete and enhance education and infrastructure improvements mentioned above. Crystal City will see improvements outside of tax revenues as well since Amazon plans on acquiring 4.1 million square feet of office space in the vacant, deteriorating buildings along Crystal Drive (Cohn, 2019). This office space will be renovated into highly efficient, modern office spaces as well as housing units to bring future employees closer to work. Amazon's deal with local contractor JBG Smith leaves 2 million square feet of buildings still available, which JBG Smith plans of turning into commercial space to service the Amazon campus and new residents. The bottom floor of the renovated buildings will be reserved for businesses, promoting window shopping and allowing workers and residents to be within walking distance of restaurants, shops, and an event center (Palmer, 2019). The development surrounds Metropolitan Park, a green space centered between offices, businesses, and residences that allows for festivals, farmer's markets, and leisure (Palmer, 2019). The arrival of Amazon will bring in tax revenues and jobs, but most importantly to many people in the Crystal City region, it will rejuvenate and modernize a section of town that had been neglected for nearly twenty years.

Unfortunately, Amazon will not be beneficial to all Arlington residents, specifically those who earn well below the county average salary of \$88,449. Residents fear similar scenarios to Seattle, where Amazon's presence greatly increased the cost of living while decreasing the availability of housing in the city. Simple economics points to the combination of heightened demand and shortening supply leading to price increases in the housing market. Although for those who do not have high-income jobs, Arlington is becoming unaffordable as median prices

in July 2019 reached \$675,640 (Hagan, 2019). In 2019, before any Amazon operations had begun in the county, the median home price in Arlington rose by 17.2% compared to 7.0% in neighboring Fairfax County (Hagan, 2019). In the rental market, prices are also increasing as one Arlington woman stated her rent increase in 2019 was 5x higher than the increase in previous years (Fadulu, 2019). To combat rising prices, Arlington has put aside \$16 million for affordable housing projects, and Amazon has donated \$3 million to the cause, with the possibility of an additional \$5 million in the future (Fadulu, 2019). While this money will help maintain some housing projects with lower rental rates, the constantly increasing demand for housing in Arlington will make it difficult for low-middle class families to stay in the area. Housing inventory in Arlington decreased 18.8% over 2019 and young families are waiting to buy, saving income to be able to afford higher down payments on homes (Hagan, 2019). While Amazon says the housing market will not become as inflated as it did in Seattle, current trends show Arlington becoming an even more unaffordable county, pushing low wage earners to move to neighboring communities to be able to afford the costs of living in Washington's metropolitan area.

Virginia, unlike Alabama in 1993, had established businesses and infrastructure in the neighborhoods encompassing Arlington, Alexandria, and Fairfax. Although Crystal City itself was plagued with vacancies in commercial spaces, surrounding neighborhoods supported the residents of Crystal City and kept residents in place. The addition of Amazon will bring both the initial 25,000 jobs promised by Amazon, as well as other businesses that will aim to service and profit from Amazon's operations and employees in the area. The modern, centralized working campus envisioned by Amazon will incorporate work with leisure, and bring employees closer to shopping, dining, and green spaces that will hold events. This campus-like structure will allow Crystal City residents to stay in their communities, keeping money within the neighborhood and

fostering economic growth. Virginia also protected their interests by putting stipulations on the cash grants offered to Amazon as incentives. If Amazon reduces its plans or scraps the HQ2 project as they did in New York, Virginia will be able to retain their cash and invest it in different projects. Ultimately, the Amazon investment has the potential to boost an already successful economy in Northern Virginia, providing money to invest in improving the quality infrastructure and education systems in the region, while improving wages for the area's residents.

Discussion

In a capitalistic society such as the United States, both the federal and state governments will always look for ways to increase jobs, lower unemployment, and improve wages within their borders. Regardless of a state's needs, the politicians will always bid on companies that can improve the state and said politician's image as seen by the 238 bids Amazon received for its HQ2 facilities. Acquiring new businesses to a state not only increases employment, but it can also help shift a state economy, as automobiles have done in Alabama, replacing the textile industry as those positions were steadily outsourced through the 1990s and 2000s. Although not a perfect system, each state has established incentive laws and designed plans to regulate businesses from taking over a state's government operations and budget. Companies such as Boeing, which have acquired decades of tax breaks and incentives from multiple states, must be further regulated in a manner like Virginia's new deal with Amazon. This section will discuss potential improvements to corporate incentivization deals, as well as analyze whether having more money in a state leads to an improved state overall.

While Virginia's business profile and strong workforce allowed the state to acquire Amazon without a record-breaking incentives package, the deal should be praised and duplicated

by state governments in future business negotiations. Virginia's total package for Amazon is reliant on the creation of jobs and business travel to the Arlington area. While Amazon could receive as much as \$550 million from the Virginia government in cash grants, the company must provide a full 25,000 jobs to receive the payment. Each job under 25,000 in total, will cost Amazon \$22,000. Knowing companies do not always provide what they promise and will back out of deals over monetary compensation, Virginia's lawmakers showed brilliance in getting one of the world's largest corporations to commit to a results-oriented, performance-based incentives package that does not include tax breaks. Following Virginia's plan can prevent states from overspending and playing into corporate greed, such as South Carolina did in 2009 when the state approved nearly \$1 billion in incentives over thirty years for a Boeing factory (Robertson, 2018). While South Carolina has exhibited success in deals such as BMW, Boeing has not provided results to justify the massive incentives, and thus "State officials credited with luring Boeing to the Lowcountry say they still do not know what all the incentives offered to the aircraft giant are worth" (Robertson, 2018). In addition to performance-based incentives such as those offered by Virginia, state legislators should look to limit the length of incentive packages. No major corporation requires 30-40 years of incentives to afford the development of a new location. Therefore, by limiting property tax abatements to 5-10 years, a state can prevent being burdened by an underperforming company that is exempt from certain taxes for a generation. While Virginia has benefitted from being a large state with many federal projects within its borders, all states, regardless of infrastructure or development plans, have a comparative advantage in some area of business. No one state or country can be the best producer of all necessary goods, therefore creating the global trade market that exists today. For states such as

Alabama which do not have the advanced infrastructure of Virginia, the state must look to sectors where they are competitive. For Alabama, such areas would include energy and manufacturing.

Why Automakers Alone Can Not Fix Alabama

As for Alabama, a state that was successful in its pursuit of industry and has improved state economic conditions around the auto industry, the question becomes, is the creation of cash enough? Despite being #5 in automotive production and #3 in automotive exports, Alabama still ranks 49th in K-12 education and 38th in infrastructure, which combines road quality, internet access, and energy (USNews, 2019). The investment in the auto industry has proven successful, shifting parts of the state from textiles and agriculture to manufacturing. Yet, except for Mercedes-Benz in Vance, these major automotive plants are opening in areas close to the big cities such as Huntsville, Montgomery, and Lincoln, a town along I-20 within an hour and a half of Birmingham and Atlanta. Alabama's biggest problems in improving as a state come from the political corruption that has plagued the state for generations, as well as the impoverished areas including inner-city Birmingham and the Black Belt counties.

Alabama's political leaders have been at the forefront of national news in the last five years, and former Governor Robert Bentley was ousted in 2017 for using government funds to hide an affair with one of his political advisors (Carter, 2017). Prior to impeachment from office, Bentley resigned his position and agreed to give up his lifelong security detail and state pension in return for no prison time (Carter, 2017). A year prior to Bentley's resignation, Alabama's Chief Justice Roy Moore was removed from the bench for telling his probate judges to ignore federal rulings on the legalization of gay marriage (Carter, 2017). It was the second time Moore had been removed from the state bench for ignoring federal orders and represents a problem in the Alabama power structure, where the people in charge of the state act in their own interests

and misappropriate funds for personal gains and causes. Two other former governors had been punished, one receiving jail time for accepting a \$50,000 bribe from the head of a medical company in exchange for a seat on the state's hospital regulatory board (Carter, 2017). Alabama has enacted ethics laws regarding politicians which helped seal the fate of Judge Roy Moore and the three ousted governors, but the recency of laws has allowed a culture of corruption to form and date back to the days of segregation in the state. Former Alabama congressman Steve Flowers stated that all Alabama governors in the 1900s would have been punished under current ethics laws, most notably George Wallace, infamous for his segregationist rhetoric, who once told a reporter he gave political jobs to his friends because "Who in the hell do you think I should give 'em to? My enemies?" (Carter, 2017). Politics were used to elevate one's inner circle into prominence, leaving average Alabamians to suffer the consequences of decades of inept politicians. Alabama's lack of ethical politicians has aided the state in falling into poverty, as those elected to fix the state's issues used their positions to improve the lives of their friends and families, not Alabama. For the state to make advancements around industry improvements, citizens must become more politically active and elect officials who will fight for the changes they desire. Until politicians address the poverty in Alabama's Black Belt and Birmingham City, the state will continue to rank at the bottom of national rankings.

As for the Black Belt, it is a group of seventeen counties that run across south Alabama riddled with poverty, unsafe living conditions, and a lack of industry. Named for the rich black soil in the area, the Black Belt once consisted of prominent cotton plantations. As slavery became illegal and plantations shut down, the area shifted to become known as the impoverished counties of mostly African Americans who remained in the area following slavery and the Jim Crow era (Sheets, 2017). Across the Black Belt, the median household income is only \$28,656,

ranging from \$23,491 in Wilcox County to \$35,657 in Greene County, all below the median in the State of Alabama and the United States (University of West Alabama, 2017). Along with low wages, the Black Belt suffers from third world infrastructure defects, including broken sewage systems, as well as homes without true sewage systems. In these homes, such as the ones visited by UN official Phillip Alston in Butler County, sewage flows from the home in exposed PVC pipes into trenches dug by the property owners. The abundance of raw sewage has exposed Black Belt residents to E. Coli and hookworm, a disease not commonly seen in developed nations (Sheets, 2017). When describing the Black Belt, Alston exclaimed, "I think it's very uncommon in the First World. This is not a sight that one normally sees. I'd have to say that I have not seen this" (Sheets, 2017). Alston continued by stating the goal of his trip to the Black Belt was, "bring attention to [these problems], just like we bring attention to people who are being tortured" (Sheets, 2017). The poverty and dire conditions of the Black Belt hold back the state and must be addressed for Alabama to grow as a state. Along with funding for infrastructure improvements, the state must invest in industry in the Black Belt the way it has in other parts of the state. Vance does not resemble the Black Belt because Mercedes replaced the sawmills and soybean farms. Bringing money and opportunity to the Black Belt, just as the state did in the more urban areas with auto industry projects, could help lift the region out of immense poverty and raise Alabama's overall image.

The state has begun investing in industry in the area, as Gov. Kay Ivey, who was born and raised in Wilcox County, currently one of the poorest in the Black Belt, has used her term as governor to bring awareness to the need for industry in the region. In October 2019, Governor Ivey announced a \$175 million Enviva wood pellet plant in Sumter County that brought 85 jobs to the area and created needs for additional loggers and truck drivers (J. Underwood, 2019).

Without offering incentives, the western Black Belt county acquired much-needed jobs that will use local resources and personnel to create renewable energy sources. When discussing Enviva's decision to open in Sumter County, Commerce Secretary Greg Canfield said, "We're committed to helping create jobs through economic development in Alabama's rural areas, and the opportunity for Enviva to locate this wood pellet plant at Epes is a significant development for Sumter County" (J. Underwood, 2019). Enviva operates eight plants in the United States and has said production in Sumter County could double if early operations are successful (J. Underwood, 2019). Governor Ivey's commitment to rural investment shows the state is trying to address the issues that plague the Black Belt such as education and infrastructure. With more investment in the area, the counties will have more available funds to address sewage replacements and the improvement of wireless networks and roads. More investment in the counties will also improve education because in the state of Alabama there is a direct correlation between poverty and failing schools. While Alabama does not have the infrastructure or technically inclined workforce of Virginia, the state is able to use Virginia's methods to attract companies in areas, such as transportation and energy, where the state boasts a comparative advantage of other states.

In 2019, 76 schools across Alabama were labeled as failing. In 72 of the failing schools, poverty levels are greater than 90% (Crain, 2019). 32 of the 76 failing schools are located within the Black Belt counties and median poverty levels among students in these schools are 98% (Crain, 2019). From the list, it is evident that the lowest-performing schools are in impoverished areas where survival is more important than attending school. While the state average for chronic absenteeism, a measure of the percentage of students who miss 15 or more days of school in a term is 11%, average absenteeism in failing Black Belt schools is 20.43% of students (Alabama Dept. of Education, 2019). Due to the lack of good jobs and sewage infrastructure in the Black

Belt, many students miss school to either work or due to illnesses caused by their poor living conditions. Low attendance leads to lower academic growth, as students must go to school to learn the material being taught.

As an example of the difference between regular schools and impoverished schools, this following paragraph will compare Southside High School, a failing school in the Black Belt county of Dallas to Bob Jones High School in Madison County, the #3 ranked high school in Alabama according to Niche. The median household income in Dallas County is only \$30,065 and 91% of Southside students receive free or reduced lunch whereas Madison County has a median household income of \$92,197 and only 19% of Bob Jones students are on free and reduced lunch programs (Niche, 2019). With fewer impoverished students, Bob Jones High enjoys more academic success, as 58% of students are proficient in reading and 49% of students are proficient in math (Niche, 2019). At Southside, only 12% of students are proficient in reading, and only 5% of students are proficient in math (Niche, 2019). While some would say this discrepancy lies in school funding and resources, teachers at Bob Jones High earn on average \$55,625 annually, only \$3,000 more than those at Southside High (Niche, 2019). Where the schools do show differences is in chronic absenteeism, where Bob Jones has the state average 11% of students chronically absent while Southside High had 34% of students considered chronically absent in 2019 (Alabama Dept. of Education, 2019). Despite low attendance and proficiency scores, 92% of students graduate from Southside, showing flaws in the state's commitment to education. Based on proficiency scores, most students at Southside are not educated enough to graduate, yet they are pushed through by the school system. For Alabama to improve educationally, attendance and expectations in failing schools must improve, which can

be improved by economic growth in rural areas, giving students the resources to attend school regularly and be successful.

It would be irresponsible to say one industry or business could pull a state out of deep-rooted poverty. Alabama was founded on plantation economies that acquired some manufacturing industries as slavery ended and northern companies moved south to cut operating costs. While the transportation equipment industry has been beneficial to areas with manufacturing abilities such as Tuscaloosa, Montgomery, and Huntsville, the auto industry alone will not be able to overturn the effects that over a century of extreme poverty caused in the Black Belt. With a lack of job opportunities and competitive wages, people look for ways to afford survival, which leads to the abundance of homes without adequate plumbing and the presence of third world diseases. The necessity to work for a poor living in the Black Belt has created a culture that does not value education, as short term necessities outweigh long term aspirations and goals, allowing many students to regularly skip school and fall well below proficiency in educational measures. To combat the need for work and rapid spread of diseases in these areas, the state must look for self-sustaining industries to promote growth in the Black Belt region to help lift residents out of poverty and help them create a culture that allows for regular attendance in school and a healthy homestead. Industries such as the wood pellet plant in Epes allows for residents to get higher paying jobs in a company that will be able to operate off of the resources in central Alabama for generations and promote infrastructure improvements that will be mutually beneficial to company and the local residents. The Black Belt can improve, helping overall infrastructure, income, and education rankings rise within the state through the creation of self-sustaining businesses in the region, similarly to the growth seen in auto industry hotbeds across the state. Through the creation of jobs that allow people to live comfortably, in a safe

environment, the region will generate revenues it has never had before, allowing for public works improvements, and the ability for students to focus on getting an education.

Conclusion

While the auto industry has not saved Alabama from perennially being ranked at the bottom of many national rankings, investment in industry has improved the lives of many Alabamans since Mercedes-Benz arrived in Vance. With over 40,000 automotive jobs at four major automaker plants and 150 supplier plants, the automotive industry is providing salaries and benefits to workers who were looking for an answer to the failing textile industry. Although not advisable to pay \$169,000 per job to a foreign company that has never conducted operations within the United States, Alabama rebranded its manufacturing base around automobiles which has helped expand the state's credibility on a global stage. Vance is not at risk of being a Black Belt style rural town because of the investment in jobs and manufacturing. As rural development continues to be an area of concern for Alabama's government, the state should look to follow Governor Ivey's lead of bringing industries to Black Belt counties that can benefit from existing resources or workforce capabilities in the area. The Enviva plant was not bought with incentives but was enacted because of the availability of natural resources needed for wood pellet production in the area. Virginia used similar tactics in acquiring Amazon, as the highly educated workforce with the greatest computer science training in the nation was able to pay less for a tech giant. Vance was successful with car production because many workers had experience with manufacturing through textiles. Investment in areas of strength save states money, and better prepare an area to grow and succeed around an industry.

One could argue the shift of manufacturing within the state of Alabama was ineffective because, despite higher salaries and more revenue for the state governments, the state has failed

to pull itself from the depths of American society. Although the state is still struggling, it is not because investment in industry was a failure but deep-rooted issues such as corruption and immense poverty have hindered the state's ability to advance. While many politicians in the state, such as Kay Ivey, are aiming to improve their hometowns and eradicate generations of poverty, it is not an issue that can be resolved overnight, nor without the active participation of Alabama residents. Dedication to attending school, and voting for officials who will make positive changes, along with more investment in rural Black Belt counties, will help Alabama improve as an overall state. Industrial investment has lifted areas such as Birmingham, Huntsville, Montgomery, and Tuscaloosa out of plantation culture, but that investment is now needed in rural areas such as Fort Deposit or Epes. Each state has a comparative advantage, or ability to do something better than other states, in business and through investment in areas of strength, whether it be manufacturing in Alabama or computer software in Northern Virginia, states can improve their economies through business, therefore creating revenues for advancements in infrastructure, education, and other public works.

By no means is the system of incentivizing companies perfect, nor are all incentive packages offered to large multi-national corporations justifiable from an economic standpoint, but investment in industries that suit a state's strengths can improve the economy of a state. In many southern states, manufacturing, especially in automotive equipment, has bolstered once rural economies and provided better livelihoods for its residents. As the world continues to become more interconnected and companies are moving and expanding to fulfill growing customer demands, states can use strategies demonstrated by Virginia and Alabama such as finding companies that fit a state's strengths and protecting state funds by offering performance-based incentives. Legislation to limit the duration of tax incentives, and to hold businesses

accountable for negotiation promises will only further benefit states in efforts to expand local economies. Virginia paid \$147,000 less per job for Amazon in 2017 than Alabama paid for Mercedes in 1993, showing it is possible to build economies without breaking the state bank. Incentives are beneficial negotiation tactics that can result in significantly more return revenue from operations. Following trends to improve a state's positions in these agreements makes the process of corporate incentivization more beneficial and feasible in revenue and job creation methods.

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