END THE BUSINESS BORDER WAR
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It is fitting that we are discussing border wars on the 150th anniversary of the beginning of the Civil War. Companies, not armies, are now moving. Casualties are measured by job loss. Money is the primary ordnance.

For a decade, companies have relocated both ways across the Kansas/Missouri line. The incentives and volume for such moves has steadily increased. Concern has been raised about whether incentives are a good use of public resources.

Governments manipulate tax policy to incent behavior considered desirable or discourage behavior inimical to the public good. But these incentives are paid to companies to move relatively short distances without creating any net new jobs for the region.

In Missouri, state and local incentives for development began with the 1946 constitutional convention as a way to rebuild cities (mainly St. Louis) after the Great Depression and World War II. The focus then was on slum clearance and blight removal. Missouri voters amended the constitution to allow property tax abatement and the use of eminent domain.

Since then, other abatements and tax credits have been added, and morphed from blight removal to job creation. Today, incentives are accepted as job attraction tools, even where no jobs are created.

Focus is now shifting to job retention. If you are the CEO of a relocating company and are considering options, you cannot ignore millions of dollars from a state and local government to induce you to move. Under existing law, you will not receive that offer from the state and city in which you are currently located. So, hypothetically if you have one site in your current jurisdiction with no incentives attached, and another site in a new jurisdiction that includes cash, tax credits, tax abatements and tax exemptions, how do you explain to your shareholders that you turned down the new jurisdiction?

The problem is not with the CEOs but the way incentives are awarded. This can be fixed. The cost of incentives is high. Losers lose more than the winners win. A winning state usually gives up years of taxes. In the case of a move of only a few miles, the new state may not gain new residents.

Recently J.P. Morgan moved its Retirement Plan Services offices (and 800 jobs) from 95th and Ward Parkway to the Sprint campus in Overland Park. I would bet that many of the employees who worked at the Ward Parkway office already lived in Kansas, which was receiving a great deal of benefit just from having the company close to the state line.

There have been appeals to the altruistic nature of state and local legislators to come and reason together. Yet there will never be a “grand bargain” based on altruism. The brotherly love shared by cities evaporates in the face of hard unemployment statistics.

But there is a way to appeal to the enlightened self-interest of the two states: Each should amend its laws to make all of its economic incentive programs directly proportional to the distance of an interstate move, with 30 miles representing 100 percent. A company moving 1 mile could receive up to 1/30th of the incentives available to a company moving 30 miles or more. The distances in between would be scaled accordingly. The goal is not to prevent interstate moves, but rather to prevent the payment of large incentives that don't add net new jobs to the region. If a company is going to move regardless of the incentives, the receiving state would not have to pay such a high price.

Companies within a region tend to pick new locations based on where their employees live. The average commute in the Kansas City area is 16 miles, or about 23 minutes. A company is unlikely to move from Kansas City to Topeka or vice versa for economic incentives. Kansas also has motivation to adopt such legislation. At some point the Sprint campus will be full. The turnstile works both ways. Witness Applebee's relocation from Lenexa to Kansas City.

It would be tempting to make an exception to this new policy for a company moving across the state line into a blighted area. However, none of the cases we have examined in the last 10 years fits this parameter. Most moves are from downtown Kansas City to Johnson County suburbs. Still, it might be worth considering the inclusion of a federal definition of blight.

Missouri Gov. Jay Nixon has agreed to consider some reasonable approach to ending paying for interstate moves that add no net new jobs to the region. The question is, will Kansas Gov. Sam Brownback concur?