Another Voice / Economic policy

The perils of chasing smoke stacks — and bank assets

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The financial bailout is built on the premise that politicians will correctly pick which firms to aid. This approach, unfortunately, has a long track record of failure.

Consider the practice of state and local officials picking winners and losers with incentive packages designed to lure businesses to their communities. A 2003 Buffalo News investigation, for instance, found that not only were special economic zones created by the City of Buffalo and New York's governor losing $200 million a year, but tax incentives designed to attract new businesses were helping only existing law firms and fast-food chains. Or look to Texas. Beginning in 2004, officials in Bexar County, home of San Antonio, cobbled together a huge financial package to lure Seattlebased Washington Mutual. The enticement worked. The WaMu office opened to great fanfare in June 2005, with city officials promising 3,000 to 4,000 new jobs. Now the same officials are questioning their targeted tax and regulatory incentives.

Washington Mutual became the largest bank to fail in U. S. history, while Bexar County spent $16 million to attract WaMu. According to the San Antonio Express-News, WaMu never created the promised 3,000 jobs. What's worse, there were no contingencies to ensure WaMu paid back the $16 million — so Texas taxpayers are on the hook.

As these cases confirm, politicians do a lousy job of picking winners and losers. They should stop this flawed practice of economic development by "chasing smoke stacks," which wastes millions of dollars. A better approach is to create a prosperous business climate for everyone by expanding economic freedom.

Economic freedom is the right of individuals to pursue their interests through voluntary exchange of private property under the rule of law. Expanded economic freedom guarantees that the economy and standards of living will grow. States differ in the impediments they impose on businesses and consumers through lawsuit abuse, tax burdens and the size of government.

Taking these factors into consideration, the U. S. Economic Freedom Index, a report from the Pacific Research Institute and Forbes, ranked each state's fiscal, regulatory, judicial, government- size and welfare-spending levels. South Dakota ranked most economically free while New York came in last.

The study also measured economic growth in 272 cities from 2000 to 2004 in terms of total employment growth and total personal income growth. It found that greater state economic freedom resulted in stronger growth in jobs and incomes for the nation's cities.

State and local officials should take note. Politicians in New York, Texas and elsewhere learned these lessons the hard way when their schemes failed. Unfortunately, the financial bailout relies on the same failed approach.

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