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TESTIMONY

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AEROTROPOLIS BY ANY OTHER NAME

By Patrick Ishmael

Testimony Before The Missouri House Economic Development Committee

To the Honorable Members of this Committee:

Ladies and gentlemen, thank you for the opportunity to testify today. My name is Patrick Ishmael, a policy analyst for the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that supports free-market solutions for state and local policy. The ideas presented here are my own. Included with this testimony is a report that the Show-Me Institute published three years ago detailing the first version of the Aerotropolis/China Hub project.

When the Missouri Legislature originally considered subsidizing the half-billion dollar “Aerotropolis” project in 2011, the Show-Me Institute had numerous questions. Where, for instance, was the research that substantively showed the plan would work? Why should Missouri subsidize new warehouses around Lambert-St. Louis International Airport when so much warehouse space is already unused? Why were many prominent Aerotropolis supporters claiming that if the incentives were approved, mountains of Missouri beef would be shipped by plane to China

– when not only was it illegal to ship American beef to China at the time, it would have been impractical even if it were not illegal? Those questions and others were not adequately answered, and the incentive package, and the special session that was called to consider the proposal, failed as a result.

That brings us to today’s version of the Aerotropolis project, the \$60 million “Missouri Export Incentive Act.” While this bill is considerably pared back from the original, the practical and policy problems that beset that first Aerotropolis attempt should not be forgotten; after all, this bill is directly descending from that poorly conceived idea. (That is also to say nothing of Missouri’s tax incentive problems generally. Missouri already has a gigantic, inefficient, and wasteful tax credit problem. This bill appears to only exacerbate it.)

The incentive before you today also obscures in its name a key reason some companies might voice their support of it – namely, that the credit would ultimately subsidize pre-existing *import* demand. It has to do with a problem with “backhauling” air cargo from Missouri.

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Why should Missouri taxpayers subsidize the imports of corporations already getting their goods through other cost-effective channels?

What do I mean by “backhaul”?

Say I own a truck and I am hired to drive a load of Cardinals’ jerseys from Saint Louis to Jupiter, Fla. If I drop off my jerseys in Florida but have nothing to bring back home, half of my trip is not profitable. By taking this one-way job, there is an opportunity cost – the other shipments I could have transported during the time I was driving an empty truck back to Saint Louis. I have no backhaul, meaning I am not hauling anything back to my point of origin.

That reality affects how I, and the market, price one-way service; if I am only “on the clock” for one leg of the journey, that time is going to be much more expensive for the customer than if I am employed for both legs of the trip.

However, what if my Cardinals’ jersey customer has a load to bring back to Saint Louis, or can find someone who does? The cost to that customer could be reduced. After all, my truck would be hauling back freight for the entire trip and I would be paid for the service.

But subsidizing exports to underwrite existing import demand is terrible policy, and a policy that works against pre-existing air cargo market forces. Missouri businesses already bring in numerous high-value, low-weight imports through airports in places like Chicago because the availability of backhaul opportunities for similar high-value, low-weight exports is better at those locations. Such robust import-export cargo markets

reduce the cost and uncertainty of chartering cargo flights – an advantage that a state-based export credit will not substantively overcome. While Missouri is excellent when it comes to shipping high-weight items by rail, road, and barge, it is not as well positioned to try to out-do Chicago’s O’Hare airport and others. Nor should it feel compelled to try.

I must emphasize this air cargo backhaul problem is not foreign to how the Aerotropolis campaign actually played out in 2011. When the public relations push was at its most fevered pitch three years ago, a flight from China did in fact land at Lambert loaded with goods for a Saint Louis company. After some fanfare, the flights abruptly ended. Why? Because there was not really anything that needed to be sent back through Saint Louis – and because nothing was really being sent back, the import shipments by themselves were simply too expensive to the importer to continue. It is obvious why legislators would not dub this the “Missouri Import Incentive Act,” but in practice, importers are some of the bill’s primary beneficiaries, intended or not.

Why should Missouri taxpayers subsidize the imports of corporations already getting their goods through other cost-effective channels?

If this legislature wants to help this state’s exports take off, it needs to put more air under everyone’s wings. Support the export side of Missouri’s air cargo equation by working to improve the tax and regulatory environment for all businesses. This “export act” is not the way.



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