



## *Getting bang for our buck: Economic Development in New York State*

February 11, 2008  
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**Spending top dollar.** In fiscal year 2007, the state spent roughly \$3.7 billion in tax expenditures in the name of economic development.<sup>1</sup> When you add local property and other tax breaks granted by industrial development agencies, the total easily exceeds \$4 billion annually. Adding at least \$1.7 billion in local New York City tax breaks for economic development under the Industrial and Commercial Incentive program and other programs, the statewide total approaches \$6 billion.<sup>2</sup>

There has been important progress over the past year, but despite the enormous amounts currently spent, we have relatively little to show for it. There is still no overall strategy or coordination, too little accountability and transparency, and no wage standards. The overriding priority? Focus on building the middle class, with good jobs and more opportunities.

**The stakes are high.** It's becoming clearer every week. The bursting of the housing bubble, the subprime mortgage wreckage, and the resulting credit crisis on Wall Street likely have already pushed the economy into recession. Four years of moderate job and income growth in New York could be coming to an end. On the bright sun, aggressive federal fiscal stimulus and monetary policy should help moderate the severity of the downturn. By the end of the year, these policies will have proved effective—or not.

In the meantime New York should thoroughly overhaul state economic development activities. We'll protect our own state economy best by insisting that economic development spending be effective, strategic and accountable, and centered on creation and retention of good jobs.

**The potential is great.** New York's trillion dollar economy has substantial potential as a dynamic, innovative, internationally oriented economy that richly rewards all New Yorkers. Our state is among the most highly educated in the country, with 31 percent of the adult population aged 25 and over having a four-year college or advanced degree. New York's workforce is also highly diverse in terms of its racial and ethnic composition. It has one of the largest and most varied immigrant populations among the states.<sup>3</sup>

New York has a significant productivity edge over the national average, and is the most productive among large states with diverse economies. This productivity edge is broadly based across two thirds of industries.<sup>4</sup> The state's many colleges, universities, and research facilities give it a solid technological infrastructure. New York also has the advantage of ranking very high among states for its efficient natural resource use.

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<sup>1</sup> New York State Division of the Budget and Department of Taxation and Finance, *Annual Report on New York State Tax Expenditures, 2007-2008*.

<sup>2</sup> The New York City total includes local property and sales tax breaks provided granted by the NYC Industrial Development Agency, the Urban Development Corporation and the Battery Park City Authority. City of New York, Department of Finance, Office of Tax Policy, *Annual Report on Tax Expenditures, FY 2007*, August 2007.

<sup>3</sup> Fiscal Policy Institute, *Working for a Better Life: A Profile of Immigrants in the New York State Economy*, November 2007.

<sup>4</sup> Fiscal Policy Institute, *The State of Working New York 2007: Encouraging Recent Gains but Troubling Long-Term Trends*, September, 2007, pp. 32-33. Among the ten largest states, New York has the highest value added per worker in eight sectors and the second highest in five other sectors out of the 19 sectors comprising the private economy.

**Competition, New York style.** New Yorkers have a well-deserved reputation for competitiveness. How is it that we hear of New York coming up short on measures of business climate? Unfortunately, some of the cruder measures look only at the cost side of production. Of course it is true that New York's wages and salaries are high and office rents are high. And New York taxes—especially at the local level—are not low.

But let's look at the whole picture. Doing business in New York, you get good value for your business costs. As noted above, New York's high wages and salaries go with highly skilled and very productive workers; you get what you pay for. High office rents go hand in hand with the economies that stem from densely concentrated activity. State and local taxes pay for essential infrastructure and public services—amenities that make for a better quality of life. And outside New York City, the combined federal-state-local business tax burden is actually lower than in six states to which we are often compared: California, Connecticut, Florida, Massachusetts, New Jersey and Texas.<sup>5</sup>

**Getting smart.** A strong middle class is essential to a sustainable economy and a society with truly democratic institutions—and for that we need an ample supply of middle class jobs. But in recent years, most of the job creation in New York has come at the two ends of the income spectrum, not in the middle. Low-end jobs should be improved, by increasing and enforcing the minimum wage and by vigorously enforcing and improving labor and employment standards.

The opportunity here is to focus all economic development assistance on investments in the human capital of our workers. After all, their productivity determines the competitiveness of our economy. Taxpayer-supported subsidies must be directly tied to high-quality jobs. That means wage standards and commitment to investing in the skills of New York workers.

With these firm principles for guidance, we can and should re-examine the whole panoply of economic development programs in New York State:

- Through Industrial Development Agency (IDA) reform generally, the state has the opportunity to establish meaningful wage standards for jobs created through the use of tax breaks and IDA-supported low-cost financing. Some argue that prevailing wage requirements raise costs; on the contrary, prevailing wages make worker productivity much higher, and studies show that overall cost-effectiveness is greater.<sup>6</sup>
- The Empire Zone Program should be scrapped. Although originally well intentioned, it is now severely flawed, and has become an expensive embarrassment—\$558 million in 2007, with another half billion in future liabilities.<sup>7</sup>
- The Investment Tax Credit—now so generous that many large corporations pay only a nominal amount in corporate income taxes—should be modified; the amount of credits that can be earned through job creation and retention should be increased, while the amount of credits provided without any such requirement should be reduced.
- State policy-makers should take a careful look at the City's recent analysis of its Industrial and Commercial Incentive Program. Beyond identifying potential improvements to the program, the study itself serves as a model for accountability.
- Last, New York should seek opportunities to work with other states on regional infrastructure development.<sup>8</sup>

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<sup>5</sup> Boyd, Donald J., "A Simulation of Business Taxes in New York City and Other Locations," Citizens Budget Commission, June 2007.

<sup>6</sup> Fiscal Policy Institute, *The Economic Development Benefits of Prevailing Wage*, May, 2006.

<sup>7</sup> Fiscal Policy Institute, "New York's Empire Zone Program," presentation by Trudi Renwick at "The High Road Runs through the City," September 27, 2007, Buffalo.

<sup>8</sup> Melvin L. Burstein and Arthur J. Rolnick, "Congress Should End the Economic War among the States," in the 1994 Annual Report of the Federal Reserve Bank of Minneapolis.