

Testimony of

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to the

**NYS Assembly Standing Committee on Local Governments
Public Hearing on Industrial Development Agencies
March 4, 2009, Albany, New York**

Good Morning. We greatly appreciate being invited to present this testimony on the role and operations of Industrial Development Agencies in New York State.

The Fiscal Policy Institute (FPI) has been interested in this subject since its inception in early 1991. In October of the following year (1992), FPI published the first comprehensive review ever of the costs of Industrial Development Agencies (IDAs) in terms of foregone tax revenues. In recent years, we have co-sponsored with Good Jobs First, a joint project called Good Jobs New York that has closely monitored the activities of IDAs in New York State and has actively participated in the opportunities for public participation provided by the New York City IDA. While we think that the New York City IDA has made significant improvements in its public hearing process, there is still significant room for improvement even in this case.

In today's testimony, I would like to touch on the following six subjects:

1. Increasing the usefulness of IDA hearings on proposed projects
2. Increasing the effectiveness of reporting on IDA-supported project costs and benefits
3. Ensuring that IDA benefits are not given to firms that violate state laws including those dealing with environmental quality, worker safety, and fraud.
4. Improving coordination with all local governments whose tax revenues, long range plans and/or service requirements are affected by agency projects.
5. Ensuring that PILOT payments are transmitted promptly and fully to the treasuries of the local governments on whose behalf they are collected, and that clear records of these transactions are maintained and made readily available for public scrutiny.
6. Establishing meaningful penalties for IDAs that violate Article 18-B's anti-piracy provisions.

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1. The effectiveness of IDA public hearing should be increased

Under current law, public hearings come at the end of the IDA review process and right before the IDA board is about to vote on a proposal. At the time these hearings are held, the IDA, its staff, its attorneys, and sometimes other consultants, as well as the project applicant, its staff, attorneys and consultants have frequently spent months if not years developing and refining a proposal. It is not surprising that by the time the public hearing is held, both sides in these negotiations are fully committed to the project to be voted upon.

Public hearings at this point in the process are probably necessary, but the public must be given earlier notice of applications that have been filed with the IDA and some idea as to when those projects are likely to come up for a vote. An example of an early notification requirement that might serve as a model for amendments of this type to the IDA law are the scoping session requirements under the State Environmental Quality Review Act. Other ideas for establishing such an early notice process include (a) requiring IDAs and their staff to maintain a list of pending projects about which they have been contacted, to make those lists available for public inspection, and to post updated versions of those lists on the IDA website at least weekly; (b) requiring public notice in the State Register which the Secretary of State publishes and sends free of charge to all county clerks and hundreds of public libraries when an application for project assistance has actually been received by the IDA (This could also serve to increase interest in the State Register and perhaps increase subscriptions to this publication.); and (c) requiring an informal public discussion of each pending project early in the consideration/negotiation process - before it is too late for public input to make a difference.

Another shortcoming of IDA public hearings is that they are frequently devoid of the IDA board members who will vote on a project. What is the purpose of requiring a public body to hold a hearing before voting on a particular measure? It is to make sure that the comments of interested individuals and groups are heard by the public officials who will vote on the measure involved. Imagine if a local school board claimed it was meeting a public hearing requirement if it called a public hearing and did not show up but sent the Superintendent, or a Deputy Superintendent, or an attorney, or its communications director to listen to the people who showed up to speak. Or, if a Town Board or a City Council had staffers listen to the public on their behalf. The public hearing requirement in the IDA law needs to be made meaningful. It should go without saying that when a law requires a public body like an IDA board to hold a public hearing it is only meaningful if the members of that public body do the listening. The IDA law should be amended to require that a board member who has not participated in a required public hearing on a proposed project should not be allowed to vote on that project. Under such an approach, we would be ensured that at least a majority of IDA board members would attend the required public hearings.

- ◆ For final hearings on project applications, those applications and related materials should be available well in advance of the hearing so that interested parties can provide informed and useful testimony rather than just grouching or cheerleading. And, it should go without saying that such applications should be made available for public review without having

to file a FOIL request. As is frequently done with the documents in major State Environmental Quality Review Act reviews, IDAs could provide copies of the applications for major projects to local libraries to facilitate public review.

- ◆ If hearings or informal meetings are held early in the process before an application is submitted or refined for board approval, as suggested above, then the materials that should be made available for such hearing should be sufficient to explain the project plan as it then stands but need not be a fully fleshed out application.
- ◆ For hearings on refined project applications, a reasonable amount of time should be allowed for consideration of the views presented at hearings.
- ◆ Legal notices in small print on a single day in a single daily newspaper are important and should be continued but no one should think they provide sufficient or adequate notice.
- ◆ Plain-English press releases or announcements of hearings should be sent to local newspapers including weekly community and business newspapers, as well as local radio and television stations, and civic and community organizations.
- ◆ Notices of IDA hearings should also be published in the State Register which the Secretary of State publishes and sends free of charge to all county clerks and hundreds of public libraries.
- ◆ An analysis should be required of the comments received by the deadline established by the IDA. This would be similar to the requirement in the federal and state Administrative Procedures Acts requiring an analysis of the comments received on proposed rules.

2. The reporting on the costs and benefits of IDA-supported projects should be improved

The address of each project not just the address of the project's owner(s) should be included in the annual reports filed with the State Comptroller.

The information on jobs created and retained presented in the annual report should be updated annually.

The calculation of tax benefits provided should be improved and standardized.

Information on Payments in Lieu of Taxes (PILOTs) should be included to allow fair cost benefit analyses.

Information on all government assistance provided to a project should be included and the source and/or nature of that assistance identified. It is illogical to compare project benefits to only IDA assistance rather than to all government assistance.

3. The IDA law should be amended to ensure that IDA benefits are not given to firms that violate state laws including those dealing with environmental quality, worker safety, and fraud.

The law governing the Empire Zones program includes a provision that makes compliance with environmental, worker safety and certain other laws a condition for receiving and maintaining certification as a business eligible for zone benefits. While this requirement should be strengthened, there is no comparable requirement in the law governing IDA operations. There should be.

4. IDAs should be required to improve their communication and coordination with all local governments whose tax revenues, long range plans and/or service requirements are affected by agency projects.

5. PILOT payments should be transmitted promptly and fully to the treasuries of the local governments on whose behalf they are collected; and, clear records of these transactions must be maintained by IDAs and made readily available for public scrutiny.

The IDA law should be amended to required that IDAs' standard tax exemption policies are sent at least annually to the chief executives and all members of governing boards of all affected local governments, that any changes to those standard tax exemption policies be transmitted promptly to those same officials, and that these policies and any changes thereto be made available to the public and be posted on the IDA's website.

Notice of hearings on deviations from an IDA's standard tax exemption policy should be sent to the chief executives and all members of the governing boards of all affected local governments and made available to public and be posted on the IDA's website.

Copies of approved deviations from the standard tax exemption policy should be sent to the chief executive officers and all members of governing boards of all affected local governments and made available to public and be posted on the IDA's website.

IDA boards should be required to respect local plans (such as smart growth plans) and to consider impact of proposed projects on local service delivery requirements.

Each IDA should be required to maintain, and make readily available to all local elected officials and the public, a current schedule of all PILOT payments due each year and the amount of each such payment allocable to each taxing jurisdiction on whose behalf the PILOT is being collected.

Each IDA should be required to maintain, and make readily available to all local elected officials and the public, a current schedule of project owners who are in arrears in the making of required

PILOT payments, the amounts involved and the time periods involved.

Each IDA should ensure that all PILOT payments received are promptly and fully transmitted to the treasuries of the local governments on whose behalf those PILOT payments were collected.

6. IDAs that violate the IDA law's anti-piracy provisions must be subject to meaningful penalties.

In its decision *In the Matter of Main Seneca Corporation v. Town of Amherst Industrial Development Agency; BDO Seidman, LLP*, the New York State Court of Appeals held that the anti-piracy provisions of Article 18-B had been violated by the Town of Amherst IDA. The Court of Appeals also upheld the penalty imposed by the lower court, that Uniland Partners repay the portion of the taxes that it had avoided in regard to the facilities occupied by the firm (BDO Seidman) that the Amherst IDA had illegally pirated from the City of Buffalo. It seems perverse that the Town of Amherst, on whose behalf the Amherst IDA was established and on whose behalf it operates should get a bonanza (the back tax payments) rather than a penalty. Amherst got the business which Buffalo lost and, after the fact, it got back the taxes that it had offered as an inducement to attract the business.

For the law's anti-piracy provision to be meaningful, a penalty should be assessed on the IDA not the business, or at least on the IDA in addition to the business. The law does not provide a penalty so the court devised one that it felt appropriate. But given the purpose of the anti-piracy provision the Legislature should amend the law to provide for a more appropriate penalty in cases of this type. For example, the first time that an IDA violates the law's anti-piracy provision, it could be suspended from doing any deals for six months, the second time a year, and the third time two years, etc. On the firm's side, if a payment of the type imposed in this case is required, the payment could be to the "pirated" municipality (in this case Buffalo) rather than to the "pirating" municipality (in this case Amherst).

Thank you very much for your consideration of these ideas and suggestions.

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The Economic Development Benefits of Prevailing Wage May 2006

The prevailing wage concept stems from a concern that unbridled competition among employers to pay low wages in construction would lead to a less-skilled and less-productive workforce and to shoddy construction practices and unsafe public buildings and infrastructure. The New York State Labor Law (Article 8, section 220) requires that "prevailing wages" and "supplemental benefits" be paid on most public works construction projects. In practice, prevailing wage rates and benefit contributions are usually those established by collective bargaining agreements covering at least 50% of workers in a given area.

Prevailing rates of wages and supplements in New York are determined annually on a county-by-county basis. The New York State Department of Labor is charged under state law with updating and enforcing prevailing wage requirements, except in New York City where the New York City Comptroller has that responsibility. Prevailing wage goes hand-in-hand with the apprenticeship system. As stated in Article 23 of New York's Labor Law, "it is the declared public policy of the state of New York to develop sound apprenticeship training standards and to encourage industry and labor to institute training programs.

In recognition of the value and benefits of rigorous apprenticeship training, prevailing wage regulations permit construction employers to pay registered apprentices wages equivalent to 40% to 50% of journeyman wages. To be paid less than the trade-specific journeyman wage rate on a prevailing wage project, an apprentice must be individually registered in an apprenticeship program that is registered with the state Labor Department. Prevailing wage requirements also set allowable ratios of apprentices to journeymen. For the latest schedule of prevailing wage and benefit rates, see: <http://wpp.labor.state.ny.us/wpp/publicViewPWChanges.do?method=showIt>

What is the true cost impact of prevailing wage?

While opponents of prevailing wage argue that it drives up construction costs, such a view ignores the full range of implications for construction companies, worker training, safety, and the broader impact on economic development.

Arguments against prevailing wage often are rooted in a simplistic view that equates higher wage rates with higher overall construction costs and stops there. This approach misses far more than it comprehends. In reality, considerable research shows that wage standards in general, and prevailing wage regulations in construction in particular, have several economic positive benefits.

- **Costs:** Prevailing wage does not raise overall costs since higher construction wages are usually offset by greater productivity, better technologies, and other employer savings.

- **Skills:** Prevailing wage increases the supply of apprenticeships and worker skills.
- **Worker safety:** Prevailing wage reduces construction injuries and workers compensation costs.
- **Health and pension benefits:** Prevailing wage requirements raise health and pension coverage for construction workers.
- **Cost shifting to taxpayers:** Prevailing wage minimizes the shifting of health coverage and other costs to taxpayers and other employers and workers.
- **Economic opportunity:** Prevailing wage improves wages and economic opportunities for less-educated workers.
- **Curbing harmful competition:** Prevailing wage minimizes a destructive economic “race to the bottom”.
- **Economic development.** Prevailing wage promotes “high-road” local economic development.

Research Findings on the Economic Impact of Prevailing Wage

The balance of this issues brief summarizes key findings from the labor economics literature on the impact of prevailing wage regulations.

Costs. A growing body of economic research concludes that labor standards like prevailing wage do not raise construction costs. First of all, wage and benefit costs are only about one-third of overall construction costs and that share has been falling. As noted above, under prevailing wage, contractors are permitted to pay apprentices in registered programs much less than the prevailing wage for skilled journeymen. More importantly, wage levels are only part of the cost story. Research shows that skilled construction workers who receive higher wages are about 20 percent more productive than less skilled workers. All else being equal, higher productivity means lower unit costs. When workers are better paid, construction companies save because they have less need for supervisors or unskilled labor, and their recruitment and screening costs are less. In addition, higher wages encourage construction companies to use labor-saving technology and more innovative work practices to reduce unit labor costs without reducing wages.¹ Studies of the repeal of state prevailing wage laws have found that the consequences of repeal have included lower quality construction and increased cost overruns.²

Skills. Construction projects and construction jobs are temporary. Most construction workers change employers when they move from construction project to construction project. In this context, most construction employers have little incentive to invest in worker training. Any investment they might make in skills or apprenticeships is typically lost to them when the construction project ends and the worker moves on to another employer. Economists refer to this as a “market failure” since the normal working of the market leads employers to under-invest in worker skills.³ Using data for a large number of states from the U.S. Labor Department's Bureau of Apprenticeship and Training, economist

¹ Steven G. Allen, “Unionized Construction Workers are More Productive,” *The Quarterly Journal of Economics*, vol. 99 (2), May 1984, 251-274; Kevin Duncan and Mark J. Prus, “Prevailing Wage Laws and Construction Costs: Evidence from British Columbia's Skills Development and Fair Wage Policy,” in *The Economics of Prevailing Wage Laws*, edited by Hamid Azari-Rad, Peter Philips, and Mark J. Prus, London: Ashgate Publishing Limited, 2005; Dr. Anthony P. Carnevale, “The Davis-Bacon Act: A Closer Look,” Testimony presented to the U.S. Senate, Labor and Human Resources Committee, Feb. 22, 1995, p. 9.

² For example, see Dale Belman and Paula B. Voos, “Prevailing Wage Laws in Construction: The Costs of Repeal to Wisconsin,” Milwaukee: The Institute for Wisconsin's Future, 1995.

³ Hamid Azari-Rad, “Prevailing Wage Laws and Injury Rates in Construction,” in Azari-Rad, Philips and Prus.

Cihan Bilginsoy found that state prevailing wage laws increase the supply of apprenticeships and that investments in worker training helps apprentices complete their training sooner than in jurisdictions without prevailing wage requirements.⁴

Worker Safety. Construction is a dangerous industry. Construction accounts for about 6% of private sector employment but 23% of workplace fatalities and about 10% of non-fatal occupational injuries. Using data from the Bureau of Labor Statistics Survey of Occupational Injuries and Illnesses, SUNY-New Paltz economics professor Hamid Azari-Rad showed that state prevailing wage regulations reduce injuries on construction sites and reduce worker compensation costs. According to Azari-Rad, prevailing wage requirements set in motion a causal chain of higher wages, better training, safer construction work, the retention of experienced workers and an environment where other regulations such as tax laws, insurance coverage and safety rules are followed. Construction companies that compete based on cheapening labor also tend to circumvent workers' compensation coverage, a development that reduces the incentive to create a safe workplace and shifts the costs of workers compensation to other employers.⁵

Health and Pension Benefits. The construction industry is characterized by many small employers, the seasonal nature of construction work and the relatively short duration of construction projects. In the absence of collective bargaining, these factors make it less likely that construction employers will provide health and pension benefits. Collective bargaining overcomes this "market failure" feature by establishing multi-employer and jointly managed health and welfare funds that provide health and pension benefits. By establishing wage and benefit standards, prevailing wage requirements take the costs of providing health and pension benefits out of the bidding process and are associated with greater health and pension coverage for construction workers, reducing costs to the public.⁶

Cost Shifting to Taxpayers and Other Employers. In the absence of prevailing wage standards or collective bargaining protections, most construction workers in the U.S. do not have employer-provided health insurance. It is well established that the health of the uninsured suffers from delayed medical attention, and that they often receive medical care only in hospital emergency rooms.⁷ Unless they pay for their own health insurance (or have coverage through a spouse), construction workers without employer-provided health insurance generally turn to Medicaid or other publicly subsidized health care, or receive care at safety-net hospitals and clinics (uncompensated care). This leads to the costs of health care delivery being shifted from construction companies that do not provide health insurance to taxpayers or to other employers and workers in the form of uncompensated care costs added onto health insurance premiums paid by others. For example, in his study of uncompensated care in the booming Las Vegas area in the late 1990s, economist Jeffrey Waddoups found that a disproportionate share of uncompensated care expenditures resulted from the low incidence of employer-provided health insurance in that area's construction industry.⁸ A prominent

⁴ Cihan Bilginsoy, "Wage Regulation and Training: The Impact of State Prevailing Wage Laws on Apprenticeship," in Azari-Rad, Philips and Prus.

⁵ Hamid Azari-Rad, "Prevailing Wage Laws and Injury Rates in Construction," in Azari-Rad, Philips and Prus.

⁶ See the research summarized in the following chapters in Azari-Rad, Philips and Prus: Jeffrey S. Peterson and Erin M. Godtland, "Benefits vs. Wages: How Prevailing Wage Laws Affect the Mix and Magnitude of Compensation to Construction Workers"; C. Jeffrey Waddoups, "Health Care Subsidies in Construction: Does the Public Sector Subsidize Low Wage Contractors?"; and Mark A. Price, "Pension and Health Insurance Coverage in Construction Labor Markets."

⁷ J. Hadley, "Sicker and Poorer: The Consequences of Being Uninsured," report prepared for the Kaiser Commission on Medicaid and the Uninsured, Washington, D.C.: Urban Institute, 2002.

⁸ C. Jeffrey Waddoups, "Health Care Subsidies in Construction: Does the Public Sector Subsidize Low Wage Contractors?" in Azari-Rad, Philips and Prus.

national research firm, Data Resources Incorporated, projected that the repeal of prevailing wage in Massachusetts would increase state unemployment compensation and social service expenditures.⁹

Economic Opportunity. In testimony before Congress, national education and workforce development expert Anthony P. Carnevale stated, construction “is one of the few remaining sectors where workers with limited classroom education can make a living wage and support a family.”¹⁰ Prevailing wage helps maintain wage standards in the construction industry and thus improves the likelihood that construction jobs will continue to provide an avenue for economic mobility for less educated workers.

Curbing harmful competition. Prevailing wage requirements help ensure that competition among contractors in bidding for construction projects is channeled into areas of overall cost efficiency, high productivity and innovative methods, and not unduly focused on driving down wages and benefits. By effectively removing labor standards from competition, prevailing wage works to improve overall industry compliance with wage and hour and safety standards.

Economic Development. Prevailing wage exemplifies good economic development. It encourages the development of a high-skill, high-wage economy that provides decent health and pension benefits and economic security to workers. It discourages construction companies from competing based on driving down wages and cheapening the quality of construction, i.e., from a "race to the bottom". Additionally, higher wages have a positive impact on local incomes and tax revenues. In a 1995 study a group of researchers at the University of Utah found that after Utah repealed its prevailing wage law in 1981, construction earnings fell, leading to substantially lower income tax and sales tax revenues.¹¹ Belman and Voos, economists at the University of Wisconsin, estimated that repeal of that state’s prevailing wage law would significantly reduce construction workers’ incomes and trigger a loss in state tax revenues.¹²

* * *

Conclusion. An extensive economics literature shows that prevailing wage in construction means more cost-effective construction, and more skilled and better-paid workers. Industrial development authorities exist to enhance local economic development. Applying prevailing wage requirements to publicly-subsidized construction is likely to lead to a series of benefits that is the flip side of what has happened where prevailing wage has been repealed: higher construction wages, greater health and pension coverage, greater apprenticeship opportunities for less educated workers, and the more effective functioning of the construction labor market overall. Prevailing wage standards are a fundamental building block for a strong local, "high-road" economy based on high skills and high wages.

⁹ Data Resources Incorporated, “Study of the Economic Impact of Repeal of the Massachusetts Prevailing Wage Law,” August 18, 1995, cited in Carnevale, "The Davis-Bacon Act: A Closer Look," Testimony presented to the U.S. Senate, Labor and Human Resources Committee, Feb. 22, 1995, p. 10.

¹⁰ Dr. Anthony P. Carnevale, "The Davis-Bacon Act: A Closer Look," Testimony presented to the U.S. Senate, Labor and Human Resources Committee, Feb. 22, 1995, p. 3.

¹¹ Peter Philips, Garth Magnum, Norman Waitzman, and Anne Yeagel, “Losing Ground: Lessons from the Repeal of Nine ‘Little Davis-Bacon’ Acts,” University of Utah, 1995.

¹² Dale Belman and Paula B. Voos, “Prevailing Wage Laws in Construction: The Costs of Repeal to Wisconsin,” Milwaukee: The Institute for Wisconsin’s Future, 1995.

Friday, February 29, 2008

To the Editor:

In “IDA reforms on horizon?” (Jan. 30), a study released by the state Economic Development Council was cited to show that requiring Industrial Development Agency projects to pay prevailing wages would increase construction costs. That study is deeply flawed. Its methodology is like a building without a foundation: It might look OK from the outside, but knock on the door and it collapses in a heap.

The study’s fatal flaw is that it assumes productivity is the same for all construction, whether prevailing wage or not. That assumption flies in the face of considerable research by construction economists that show that workers paid prevailing wages are much more productive and cost effective than workers paid lower wages. This is because they receive years of intensive skill and safety training in real apprenticeship programs, they require less supervision and they save on materials and time because they do jobs right the first time. A classic study covering 14 years of highway construction nationwide found that states with higher construction wages had 11 percent lower total costs per mile of highway because of higher productivity and savings from less work done over.

Economic developers should look at the value that prevailing wage makes possible and not be deceived by the false allure of low wages. In the end, you want a building that is durable and cost effective.

More and more, informed observers are concluding that to buttress New York’s position in the global economy, we need to place even greater emphasis on high skills that make us more productive, rather than opt for a “low-road” approach of low skills, low wages and low productivity. The NYS Economic Development Council needs to educate its members that the foundation of “prevailing wage” is a multi-year system of rigorous construction skills and safety training. The result is, as it should be, higher skills, higher productivity and higher wages and benefits.

Albany failed to pass IDA reform by the Jan. 31 deadline after giving itself seven more months past last year’s deadline. It’s time for our state elected officials to revamp the way IDAs operate so that taxpayers start to get some real return on the hundreds of millions of dollars of tax breaks IDAs hand out. It’s also crystal clear that the “economic development” community needs to get behind a strategy that focuses on investing in workers’ skills and higher productivity and ensuring that all workers and communities benefit from the resources this state invests in the name of economic development.

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

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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.¹ 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.²

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.³

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.⁴ 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.

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

² 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.

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

⁴ 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.⁵

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.⁶
- 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.⁷
- 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.⁸

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

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

⁷ 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.

⁸ 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.