

New York State Legislature
Joint Legislative Budget Hearing
Albany, NY 12224

The logo for the American Economic Liberties Project, featuring a dark blue square with the text "AMERICAN ECONOMIC LIBERTIES PROJECT" in white, all-caps font. The square is set against a background of light blue wavy lines.

AMERICAN
ECONOMIC
LIBERTIES
PROJECT

Dear Chairs Krueger and Weinstein and Members of the Legislature,

Thank you for the opportunity to testify. My name is Pat Garofalo and I am director of state and local policy at the American Economic Liberties Project, an organization dedicated to reducing the power and influence corporations have over our economy and democracy, as well as the author of a book on economic development incentive use and abuse. I'm here to urge you to take a long, hard look at New York's economic development system because it is badly broken and in desperate need of reform, increased transparency, and democratic accountability.

New York government, at all levels, is one of the most prolific users of economic development incentives, doling out an estimated \$10 billion annually between state incentives and incentives at the local level. Reams of research, though, has shown that corporate tax incentives have a negligible effect on any of the economic indicators we all care about, such as economic growth, job creation, or incomes.¹ As Prof. Richard Florida put it, "there is virtually no association between economic development incentives and any measure of economic performance."²

In fact, most of the time, incentives don't entice corporate leaders to do anything they wouldn't have done anyway, as location decisions are based on several other business factors, such as workforce requirements, supply chains, and other local laws. According to Tim Bartik of the Upjohn Institute, between 75 and 98 percent of granted incentives have no bearing on where a

¹ See: Garofalo, Pat, "The Billionaire Boondoggle: How Our Politicians Let Corporations and Bigwigs Steal Our Money and Jobs," Thomas Dunne Books, March 2019; LeRoy, Greg, "The Great American Jobs Scam: Corporate Tax Dodging and the Myth of Job Creation," Berrett-Koehler Publishers July 2005; Florida, Richard, "The Uselessness of Economic Development Incentives," CityLab, Dec. 7, 2012 <https://www.bloomberg.com/news/articles/2012-12-07/the-uselessness-of-economic-development-incentives>; and Slattery, Cailin, and Owen Zidar, "Evaluating State and Local Business Tax Incentives," Journal of Economic Perspectives 34.2. Spring 2020, among many works. <https://scholar.princeton.edu/zidar/publications/evaluating-state-and-local-business-tax-incentives>

² Florida, "The Uselessness of Economic Development Incentives."

firm ultimately chooses to locate.³ So most incentive dollars simply wasted, because if they're not swaying a corporate decision, they're doing nothing other than lining a corporate coffer, and would have been better spent on literally any other state priority.

Economic development incentives do, though: Increase corruption⁴, siphon resources away from valuable government services that increase quality of life, worsen income inequality⁵, and disadvantage the local businesses that help communities thrive.⁶

There's no shortage of analyses out there proving all of the above; economic development incentives persist not due to their economic efficacy, but their political power. They're useful tools to make it seem like something is being done to better the local economy. In fact, one of the surest ways to predict if a state is going to increase its economic development spending isn't by looking at any economic indicator, but seeing if an incumbent governor is up for re-election.⁷

On that note, economic development incentives can also be very dangerous for democracy. By their very design, incentive programs require too cozy relationships between often large corporations and elected officials, particularly in programs where there is discretion to pick and choose amongst projects. Many incentive beneficiaries require local officials to sign nondisclosure agreements preventing them from divulging any information about the incentive

³ Bartik, Timothy J., "'But For' Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?" Upjohn Institute Working Paper 18-289. July 1, 2018 <https://doi.org/10.17848/wp18-289>

⁴ Felix, Alison and James R. Hines Jr., "Who Offers Tax-Based Business Development Incentives?," The Federal Reserve Bank of Kansas City Economic Research Department, Nov. 2011, <https://www.kansascityfed.org/publicat/reswkpap/pdf/rwp11-05.pdf>

⁵ Maciag, Mike, "Big Business Tax Breaks May Worsen Income Inequality," *Governing*, May, 2018 <https://www.governing.com/archive/gov-tax-breaks-cities-affluent.html>; Parilla, Joseph, and Sifan Liu, "Examining the local value of economic development incentives: Evidence from four US cities," Brookings Institution, March 2018 <https://www.brookings.edu/research/examining-the-local-value-of-economic-development-incentives/>

⁶ Garofalo, Pat, "How Corporate Subsidies Sink Small Businesses," *Boondoggle*, Sept. 16, 2021 <https://boondoggle.substack.com/p/how-corporate-subsidies-sink-small>

⁷ Slattery, Cailin, and Owen Zidar, "Evaluating State and Local Business Tax Incentives," *Journal of Economic Perspectives* 34.2. Spring 2020, among many works. <https://scholar.princeton.edu/zidar/publications/evaluating-state-and-local-business-tax-incentives>

deal – even including the identity of the corporation that will be receiving public funds – until the deal is fully negotiated. Programs and projects are difficult to track, cutting key stakeholders – including local businesses that aren't receiving incentive benefits – out of the process.

I want to emphasize that last point, because its important: Economic development incentives disproportionately flow to larger, politically connected businesses, as many studies have shown. Corporations that make more political donations, and which spread those donations out across parties and candidates, receive more and larger economic development subsidies.⁸ This directly affects your own local businesses in your districts, who not only don't receive public funds to build out their own operations, but see the tax dollars they pay spent on entrenching the power of their larger, dominant, often national or multinational competitors.

For example, every dollar spent by New York government on subsidizing an Amazon warehouse or otherwise building out the distribution network for a national retailer or restaurant harms the local businesses who aren't having their own distribution or logistics networks subsidized by the state.

I'd suggest a complete overhaul of New York's economic development system to focus it on what communities need most: The things that build quality of life for workers and make it possible to start small, local businesses that support local communities and build local economic resiliency. But I understand that's a massive undertaking. In the short term, I'd urge the legislature to do the following:

- Place a hard cap on subsidies, such as the \$6,000 per job created proposed by Asmb. Kim in A3077.

⁸ Aobdia, Daniel, Allison Koester, and Reining Petacchi, "Political Connections and Government Subsidies: State-level Evidence," Jan 26, 2021, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3127038

- Pass S1196/A9092, sponsored by Sen. Gianaris and Asmb. Solages, to ban nondisclosure agreements in economic development deals.
- Create a real Database of Deals, with clear metrics, so local residents and businesses can see exactly what is being spent in their name.
- Ban the use of subsidies to build out warehousing and logistics networks.

Taking those few steps would build a solid foundation on which to construct a fundamental rethink of New York's economic development system, one that moves away from a reliance on corporate subsidies and toward one that invests in people and local communities.

Thank you for your time. I can be reached at pgarofalo@economicliberties.us for any questions.

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