



**Statement of
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Citizens Budget Commission**

**New York City Council
Committee on Economic Development**

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1:00 PM**

Good afternoon. I am Marcia Van Wagner, Deputy Research Director and Chief Economist at the Citizens Budget Commission. The Commission is a nonprofit, nonpartisan civic organization whose mission is to influence constructive change in the finances and services of the City and State of New York.

I appreciate the opportunity offered by Chairperson Sanders and the members of the Council's Economic Development Committee to testify on the topic of tax incentives. Providing tax subsidies to individual firms for economic development purposes is a widespread practice. It is also one that is widely, but not universally, recognized as wrongheaded.

There are a number of reasons that offering incentives is an undesirable economic development policy. First, they are often a waste of taxpayers' money because incentives may have no effect on a firm's location decision. It is in the interest of firms who are thinking of relocating to claim that local taxes are more important to the firm's location decision than they actually may be, and it is not clear that the incentive actually alters management's final location decision.

Second, the prevalence of incentives creates an uneven playing field for firms located in the same jurisdiction. Firms in the same industry face different costs because some have received incentives and others have not. On the margin, this may allow firms with more generous incentives to take business away from others. It also lays the basis for firms to demand tax breaks only because their competitors have them. This appears to have happened in the media industry, for example, and other examples may be found on Good Jobs New York's excellent web site.

Although some small firms do receive low-cost loans and other assistance, small firms are frequently not aware of what subsidies may be available, and they often do not have the resources to take on the timely and bureaucratic task of applying for them. Ultimately, because the tax breaks offered to large businesses with clout must be made up elsewhere in the budget, the tax burden shifts to all those taxpayers, including individuals, who are unable to extract deals in the political process of incentive-granting. This inequity is layered over an average tax burden that runs much higher than other large U.S. cities.

Thus, the practice of granting incentives takes New York even farther from the standard of a good, competitive tax structure, which places low rates on as broad a base as possible. In fact, rather than helping New York compete, granting incentives further undermines New York's competitiveness through inequity and arbitrariness.

That said, one might ask if there are no circumstances under which incentives should be granted. It is possible that incentives can be justified when the entity being offered the subsidy is a unique asset to New York City and could credibly relocate. Sports teams are examples of such unique assets. The question then becomes, how much should these incentives be? Our answer would be no more than the economic benefits, and as much less as is possible to negotiate. For example, we found in a 1999 study that the economic benefits of a baseball team playing in a new or renovated stadium justified a maximum annual subsidy of \$23 million per year based on economic benefits of \$29.5 million.

The time and energy devoted to providing tax incentive packages to individual firms should instead be devoted to finding ways to improve the quality and efficiency of government services. For example, we released a study in February calling for reform in the City's procurement practices – a move that would save the City and its vendors – many of whom are located here – millions of dollars a year in unnecessary costs.

The City and State should also resolve the structural factors that drive up local taxes. The Mayor and the Council should turn their attention to shifting the burden of providing assistance to the poor where it belongs – on the State's broader tax base. In our paper, "Managing the Budget in the Bloomberg Administration," we estimate that if Medicaid and public assistance were paid entirely out of Statewide revenues, the City's share of these costs would have been \$1.3 billion less in fiscal year 2001 than it actually was (\$3.3 billion).

It is, of course, easier to grant tax incentive packages than to fix underlying problems in our local and state governments. But we are in an era when many a popular notion about what is and isn't politically possible in New York has been turned on its head, and we increasingly expect our leaders to do the right thing, not the easy thing.

I will be happy to take any questions that you may have.