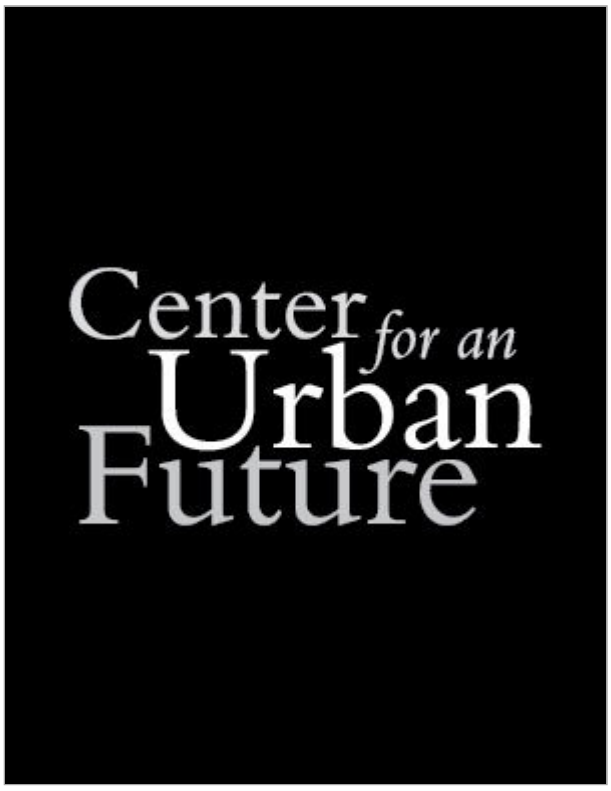


Commentary/Op-Ed - February 2001

The City's Tax Break Policy is a Waste

Op-Ed from Center for an Urban Future Research Director Jonathan Bowles. Reprinted from *Newsday*, 2/21/2001.

by Jonathan Bowles

Budget watchdogs on both sides of the political fence long have questioned the city's practice of providing multimillion-dollar tax incentives to a handful of large corporations that threaten to move out of New York.

To the critics, these so-called corporate retention deals are an unnecessary drain on the city's treasury--a giveaway to wealthy corporations that, for the most part, probably would have stayed here even without the subsidies--and at best a superficial way of addressing some very real obstacles to doing business in New York.

But any New Yorker should by now be able to agree on the most compelling reason to end this ludicrous practice: New York simply isn't getting its money's worth.

Over the past 12 years, the city has doled out nearly $2 billion in tax breaks to roughly 80 large commercial firms and financial exchanges. Within a few years--or within a few months--after the deals were announced, 39 of them have ordered major layoffs, entered into large-scale mergers (which typically resulted in layoffs) or put themselves up for sale (which is likely to lead to layoffs). Any Wall Streeter with that kind of investment record would be sent packing.

Many of these deals haven't just failed to deliver promised benefits to the city; they've blown up in the face of city officials. At least four recipients entered into mega-mergers within three months after they were presented with city incentives. Four others announced mergers within a year of receiving benefits. And 13 companies that benefited from retention deals merged with other firms that also got incentive packages from the city, virtually guaranteeing a net loss in city jobs.

It shouldn't come as a big surprise to city officials that so many of the retention deals have gone bust. After all, most of the recipients are in the banking, financial-services and media sectors--industries that have gone through a wave of mergers and

consolidations in recent years.

Take the case of Citicorp and The Travelers, two financial giants that received more than $110 million in city tax incentives between them. The two firms merged in 1998, and because there was considerable overlap between the companies' bond traders, investment bankers and derivative experts, the new entity--called Citigroup--laid off approximately 1,000 city employees. In addition, last month Citigroup decided to relocate two of its divisions from New York to London after it acquired the investment banking operations of a British firm.

Over the past two years, the city has expanded its losing strategy into new fields, extending incentive packages to dot-coms, Internet consulting firms and other high-tech companies. To anyone following the Nasdaq for the past year, it probably won't come as a shock that the result has been the same: StarMedia Networks, the Scient Corporation and USWeb, all of which were on the receiving end of city incentives, laid off at least 15 percent of their work force in recent months.

Another good example of the city's inability to pick a winner is PSINet. At a press conference last February, Mayor Rudolph Giuliani announced with much fanfare that the Internet company would open an office in Long Island City and bring 450 new jobs, with the help of city tax exemptions. Before the year was over, however, PSINet scrapped its plans to come to Queens and announced hundreds of layoffs. (Since it never moved here, it didn't receive city subsidies.) These companies aren't deadbeats. Most simply made rational business decisions that benefited shareholders rather than New York employees. The city should be as fiscally savvy with its tax revenues to benefit city taxpayers.

To its credit, the city's Economic Development Corporation has increasingly tied city incentives to the creation of new jobs--not just the threat of losing current ones. And EDC maintains that it has recouped benefits from some firms that have failed to fulfill job pledges. Still, it is troubling that these deals continue to serve as the signature economic development program of a city in which 99 percent of all businesses have fewer than 500 employees and the overwhelming majority of those businesses don't receive any incentive packages.

The next mayoral administration would be wise to abandon this defensive economic development policy, which consists primarily of reactions to individual companies' threats, in favor of a more forward looking strategy that addresses the obstacles to growth facing a range of the city's most vital sectors and the many firms, both small and large, that make up those sectors.

This should include investing in education, skills and infrastructure--tangible things that will always provide dividends to New Yorkers no matter what happens to any individual company.

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