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Testimony of Greg LeRoy
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Good morning, members of the Committee, and thank you for the opportunity to speak today. My name is Greg LeRoy; I founded and direct Good Jobs First, a non-profit, non-partisan research center that promotes transparency, accountability, and equity in economic development incentive programs. Founded in 1998, we are based in Washington DC. I have been assisting states on economic development policy for more than 30 years and have written two books on the subject.

Good Jobs First maintains five large databases, three of which are specifically tracking economic development incentive awards. We also maintain a subset of our oldest database, Subsidy Tracker, which we call "megadeals." These are deals in which state and local incentive awards exceed $50 million *for a single project*.

New York State, along with Michigan (depending upon how one slices the data), has led the nation in megadeals. We believe that this history helps explain upstate New York's weak economic trajectory over the past three decades.

From a pure risk management perspective, putting so many "eggs" in so few corporate baskets is inherently the most risky way to allocate economic development dollars.

The opposite of megadeals is to spread the state's investments mostly through public systems that benefit many employers and many workers. Examples are: graduate engineering programs in targeted fields; customized training programs targeting in-demand occupations and those facing the "silver tsunami" of Baby Boom retirements; technology diffusion and adaptation programs (to enhance process efficiency); export promotion assistance; and even firm-specific assistance in targeted sectors with promising regional comparative advantages (e.g., subordinated and/or forgivable debt, mentoring).

Besides risking very little on the fate of any one company, this non-megadeal strategy makes metros area “sticky” for young, promising firms. If they are wedded to the local public systems that have supplied it with engineers, skilled workers, quality control TA, etc., they are far less likely to leave. The value proposition for staying and growing has been enhanced.

The other point to stress here is education and quality of life as economic development drivers. Per the recent work of economist Michael Hicks and others: attractive places (i.e., those with good schools, infrastructure, and amenities) attract smart people; and smart people attract desirable employers. Therefore, if a state or community depletes its tax base by granting long-term tax abatements and other megadeal subsidies, it cripples its ability to have attractive places and attract desirable employers. Even in “low-tax” states like Texas, in-migrants disproportionately choose those metro areas with the highest taxes.

Company-specific economic development incentives rarely influence where a company relocates or expands because all state and local taxes combined as a cost of doing business for the typical U.S. corporation come to just 1.8% of their cost structures. Therefore, the state should focus on those costs that comprise 98.2% of corporate cost structures to really make a difference.

Again, thank you for the opportunity to testify and I welcome your questions.