

Testimony before the
Senate Standing Committee on Finance
**Senate Standing Committee on Commerce, Economic Development and Small
Business**
Senate Standing Committee on Investigations and Governmental Operations
**Hearing to Review the Effectiveness of Business Subsidies and Tax Incentives in
Meeting New York State’s Economic Development Goals**

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Good morning distinguished chairpersons and members of these committees. My name is James Parrott, Director of Economic and Fiscal Policies at the Center for New York City Affairs at The New School. Thank you for the opportunity to testify on the effectiveness of business subsidies and tax incentives.

I have studied the experience of New York State and New York City regarding business subsidies and tax incentives from several different perspectives over the past 30 years. I have worked for the City of New York in the early 1990s as chief economist in the economic development area and for the State Comptroller’s office in the mid-1990s. I was chief economist for the Fiscal Policy Institute for nearly two decades. I have served on the 2012-13 Governor’s Tax Reform and Fairness Commission which looked closely at the state’s growing business tax expenditures. I was on the City Council’s 2015 Task Force on Economic Development Tax Expenditures, and I also served on the Advisory Commission on New York City Tax Reform that just issued its final report two weeks ago.

1. I concur with the conclusions of the 2013 Marilyn Rubin-Donald Boyd report:
 - “There is no conclusive evidence from research studies conducted since the 1950s to show that business tax incentives have an impact on net economic gains to the states above and beyond the level that would have been attained absent the incentives. In addition, business tax incentives violate principles of good tax policy and tenets of good budgeting.”

- Lower taxes for some taxpayers require higher effective tax rates for the vast majority of taxpayers for a given level of revenue.
2. The latest New York City tax expenditure report identifies \$4 billion in annual spending for economic development tax expenditures.¹
 - There is no analysis that I am aware of that has determined that these City business tax expenditures are worthwhile, and there are studies by EDC and the IBO that show that particular programs are not cost-effective.
 3. I have closely followed the City's experience with the considerable property tax breaks provided for the Hudson Yards development since the 2005 re-zoning. I have seen no evidence that the hundreds of millions in property tax breaks were needed to incentivize that massive development. This is a case where the property tax burden from a massive-scale luxury development was shifted to other City taxpayers. The district's location, proximity to midtown and the transportation and other infrastructure improvements made by the City were sufficient to ensure the project's commercial viability, as Senator Chuck Schumer and others noted in 2005.
 4. I have several concerns about the State's proposed Penn Station area redevelopment.
 - The State is grabbing a sizable chunk of the City's midtown commercial property tax base without there having been a thorough City discussion or formal agreement with the City.
 - The details of the financing proposal are exceptionally vague; tax breaks for developers could be a significant factor, which I think would just be a replay of the mistake made in Hudson Yards and that will shift the tax burden to others.
 - The financing plan could entail significant fiscal risks for the State and City that need to be recognized and carefully considered.
 5. While the Final Report of the Advisory Commission on New York City Property Tax Reform did not present findings on business property tax expenditures, we raised the need for some form of relief for low-income renters, and there was discussion of the need to separately re-examine the advisability of current City business tax expenditures. (I urge Senators to carefully review our recommendations for a substantial overhaul of the way the City taxes residential property that overcomes the substantial inequities that have distorted our property tax system for 40 years, and provides significant relief to hundreds of thousands of moderate-income homeowners.²)

¹ New York City Department of Finance, Tax policy & Data Analytics Division, Annual Report on Tax Expenditures, Fiscal Year 2021, p. 171. https://www1.nyc.gov/assets/finance/downloads/pdf/reports/reports-tax-expenditure/ter_2021_final.pdf

² <https://www1.nyc.gov/assets/propertytaxreform/downloads/pdf/final-report.pdf>

6. To address New York State's lagging Covid-19 recovery, I proposed in policy brief released yesterday that the State use some of the federal Covid-19 fiscal relief to fund a massive wage subsidy and workforce redeployment effort. While I am generally skeptical of the value of business subsidies, I think that an exception is warranted in this case given the lopsided economic impact of Covid-19 and that the business restrictions that have pushed thousands of small businesses to the brink were imposed to protect public health. As the brief and our other research shows, the workers who remain dislocated are overwhelmingly low-paid and less-educated with a disproportionate share who are persons of color and young workers at a critical early stage in their careers. The State needs to respond to this unemployment emergency to avert more years of double-digit unemployment rates for young workers and workers of color.³

7. I also firmly believe that rather than continuing to provide tax incentives to predominantly large corporations that New York State should substantially expand investments in the accessibility and quality of public higher education, as Governor Hochul proposed in her State of the State agenda. Such investments would have a far greater positive impact on New York's economic future.

Thank you for the opportunity to testify today.

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³ James A. Parrott, *New York State's unprecedented Covid-19 Unemployment Crisis Requires a Comprehensive, Immediate Active Labor Market Response*, Center for New York City Affairs at The New School, January 13, 2022. http://www.centernyc.org/reports-briefs/new-york-states-unprecedented-covid-19-unemployment-crisis-requires-a-comprehensive-immediate-active-labor-market-response?mc_cid=0bd93eb565&mc_eid=3ce0b656b0