

Are subsidies to keep firms in NY worth it?

Paying firms to stay is not a good economic strategy.

By **Rick McGahey**

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States and cities, desperate for jobs, continue throwing money at companies to draw them in, or just to keep them from leaving. The latest example is New York City and state awarding almost \$130 million to keep FreshDirect, countering a \$100 million relocation offer from New Jersey...

Economists across the political spectrum agree that the \$70 billion spent annually by state and local governments (some analysts estimate that New York City spends close to \$2 billion annually) on these subsidies is largely wasted. Conservative economists think governments should keep taxes low and spend on better schools and infrastructure. Liberal critics focus on the lack of accountability and subsidized firms' failure to support communities through local hiring and contracting.

Relocating a firm generates quick headlines, while intelligent policy takes time and leadership. Rather than providing individual company subsidies, governments' economic strategies should align education, infrastructure and other policies to support regionally distinctive clusters of industries.

New York state has made a promising start with regional strategies, although state policies and practices are still riddled with unaccountable and unproductive subsidy spending. Mayor Michael Bloomberg has been more judicious in using subsidies than his predecessor, but there are still too many subsidy deals such as FreshDirect's that are awarded with no clear guidelines.

True, it is hard for political leaders to do the right thing when others in their region take the low road. New Jersey is at fault in the FreshDirect case, with its aggressive spending to lure New York-based firms across the Hudson. Meanwhile, some elected officials are speaking out. City Comptroller John Liu points out that New York's subsidy to FreshDirect could support programs such as 4,000 full-time scholarships to CUNY. Mr. Liu and others have called for greater transparency, so taxpayers know what they are paying for and how to reverse it if necessary.

And even if subsidies have to be used in specific cases, more should be required from companies. Los Angeles and other cities routinely require subsidized firms to make job opportunities available to local residents, use local small businesses and uphold wage and work standards. These "community-benefit agreements" have been very successful around the country, but our region lags far behind. Of course, just as with subsidies, these agreements need to follow clear guidelines with transparent decision-making, so they are not subject to abuse in the name of the public good.

FreshDirect underscores our lack of a real regional economic strategy. Wasting precious tax dollars in a subsidy-driven race to the bottom will not fix the region's economy.

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