Billions of Tax Dollars Later, No New Jobs for New York

by David Cay Johnston

The fast-increasing use of tax incentives by all 50 states has failed to increase jobs or investment, two respected experts on state tax policy found after reviewing more than 50 years of giveaways.¹

This year, state government subsidies to corporations, partnerships, and other businesses in New York state alone will total $1.7 billion, triple the giveaways in 2005, according to the new study. That’s $235 taken from the average Empire State household this year and redistributed to business owners on the theory that redistribution will create jobs.

During those years, the number of jobs in New York declined, the state’s official jobs data website shows.² The total number of New Yorkers employed in 2012 was down 175,000, or 2 percent, compared with 2005.

Think of it this way: Over nine years, the state of New York gave businesses roughly $10 billion, or almost $1,400 from each household, in a jobs program that eliminated 175,000 jobs at an average cost of $57,000. And that’s just state-level subsidies, not those from industrial development agencies.

The 143-page study by Marilyn M. Rubin of John Jay College and Donald J. Boyd, former director of the Rockefeller Institute of Government State and Local Government Finance research group, was prepared for the New York State Tax Reform and Fairness Commission created by Gov. Andrew Cuomo (D). But its findings apply to all 50 states, where tax incentives have been growing like weeds since the turn of the millennium. However, the commission’s final report barely mentions Rubin and Boyd’s findings and doesn’t even directly reference their study.

Peter G. Peterson, the private equity mogul who was Treasury secretary during the Nixon administration, and the Peter J. Solomon Family Foundation paid for the report by Rubin and Boyd. Peterson funds FiscalTimes.org and promotes reductions in Medicare and Social Security benefits that people pay for with dedicated taxes. Solomon co-chaired the reform commission. Like Peterson, he is a savvy investor wise to the ways of tax avoidance. His family foundation previously hired Rubin to do a comprehensive report on New York state taxes.³

Even before the reform commission’s final report was made public, Cuomo named a new commission without Solomon and made no mention of eliminating the tax credits so thoroughly dissected by Rubin and Boyd (the implication being that not having gotten what he wanted, Cuomo is trying again for a report made as instructed — although only time will tell).

When combined with many previous reports, the Rubin and Boyd study shows that state and local giveaways to corporations simply redistribute wealth upward without increasing jobs. Their continued existence is a testament to the benefits of being politically connected.

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In effect, those tax programs artificially inflate profits while reducing revenue for programs that do add to wealth creation and employment. In New

²New York State Labor Department, “New York State Unemployment Rate,” Local Area Unemployment Statistics Program (undated).
York, for example, preschool care and summer recess feeding programs for low-income children are under attack despite years of studies showing that they result in healthier, better-educated adults.

New York had nine business tax credits in 1994. That grew to 33 in 2005, 38 in 2009, and 50 in 2013. Two more credits have been enacted, but have not yet taken effect. By analyzing business and personal tax return data, Rubin and Boyd found that the giveaways are highly concentrated. Out of more than 260,000 corporate franchise returns in 2009, only 1 percent claimed any business tax credits. The average benefit was $189,846. (See table.)

Among the 390,000 S corporations, just 2,500, or six-tenths of 1 percent, claimed one or more credits for their owners, while among 217,000 partnership returns, just 1.2 percent claimed any credits for their partners. Among S corporation and partnership owners, whose tax credits flow through to their personal tax returns, just 25,000 taxpayers benefited, collecting an average of $11,200.

Adjusted for inflation, the New York state business giveaway programs are nine times larger in 2013 than they were in 1994. The cost of those giveaways to businesses, in current dollars, rose from $200 million in 1994 to $673 million in 2005, $821 million in 2009, and more than $1.7 billion this year.

Three-quarters of the money consists of tax credits for clearing brownfields, encouraging the making of films and TV shows, and businesses run in tax-free Empire Zones. Rubin and Boyd noted that refundable tax credits are the equivalent of cash grants, putting money in the pockets of business owners who have reduced their business taxes to zero.

Brownfields tax credits rose from $142.1 million in 2009 to $503 million this year. The film and TV tax credit more than tripled during those years from $111.2 million to $374 million. And the new Excelsior Jobs program will cost $150 million this year; it is capped in the future at $500 million.

The Rubin and Boyd study understates the total level of subsidies for politically favored businesses in New York. For example, it makes no mention of many other New York giveaways, including the (at a minimum) $1.4 billion being given to one of the richest men in the world, Sheikh Khalifa bin Zayed Al Nahyan, who controls the microchip maker GlobalFoundries.4

Rubin and Boyd did note that the giveaways they detail conflict with six traditional principles of tax

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policy: economic neutrality, equity, adequacy, simplicity, transparency, and competitiveness. “An economically neutral tax does not influence economic behavior — individuals and businesses make decisions based on economic merit rather than tax implications,” they wrote, adding that “almost by definition, business tax incentives violate these principles.”

Indeed, when it comes to those tax credits, Rubin and Boyd say:

Their goal is to alter decisions, encouraging more of a particular activity in a state or a given area than private markets would undertake absent the incentives. Depending on the activity, that may be appropriate, but it places great responsibility on public officials to understand how the market is “wrong” and how the tax system can fix it. By lowering taxes for some taxpayers while keeping them higher for others, incentives may treat similarly situated taxpayers differently and can make it harder to raise adequate revenue with minimum public resistance.

Rubin and Boyd note that one of the most pernicious aspects of state business tax credits is that once enacted, they generally “require no annual appropriation so that they tend to remain on the books indefinitely with little or no evaluation of their benefits and costs. Refundable credits, in particular, potentially expose the state to significant unanticipated costs because the amount of the credit earned can exceed taxpayer liability, sometimes substantially.”

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Those credits can also be interpreted aggressively by taxpayers that “can expand the use of credits beyond their original intent,” according to the study. Further, tying any benefits to any credit is virtually impossible, because information on individual credit beneficiaries rarely is disclosed and often is protected by taxpayer confidentiality rules.

So what do the overall results of Rubin and Boyd’s intense study of New York tax credits and review of literature from other states, combined with their decades of experience as state fiscal experts, tell us?

Rubin and Boyd found no evidence that jobs were created. And their review of numerous studies going back more than 50 years came to this chilling observation:

Economic development officials value business tax incentives as tools needed to compete with other states. There is, however, no conclusive evidence from research studies conducted since the mid-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 in the absence of the incentives. Nor is there conclusive evidence from the research that taxes, in general, have an impact on business location and expansion decisions.

That is consistent with another new study that found a negligible benefit from manufacturing tax credits for 15 sectors in 20 states during the 1990s. That study’s authors, all respected authorities on public finance, found no measurable gains, either:

When the tax climate is properly measured as the potential liability arising from new investment in a state, we estimate that a 10 percent reduction in the effective tax liability is associated with a 3.5 to 5.3 percent increase in value added for the state’s targeted manufacturing industry. When we isolate the value of industrial incentives from the basic tax system in our theoretically preferred marginal tax measure, we find that a 10 percent reduction in liability achieved by way of lowering taxes is associated with a 4.5 percent increase in value added while an equivalent reduction achieved by way of increasing incentives is associated with only 1.2 percent industrial growth, the latter elasticity not statistically different from zero.

What all that leaves us with is a political question: How have the beneficiaries of those tax credits managed not just to continue their rent-seeking, but to dramatically expand it in the face of growing empirical evidence showing that those credits are nothing more than gifts to corporations and their owners, who by definition are better off than most taxpayers?

The answer, I believe, lies in three areas:

• A failure by news organizations to aggressively or even adequately explore those deals, which from my experience would never have survived scrutiny in the 1960s when newspapers were still a mass media read by nearly all homeowners.

• The success of corporate America in implementing the recommendations of the Lewis Powell memorandum from 1971 urging the U.S.

Chamber of Commerce to bring news organizations to heel and thwart consumer advocate Ralph Nader and others. The future Supreme Court justice’s memo prompted the creation of institutions such as the Heritage Foundation. Powell took aim at news coverage critical of tax incentives for business, writing that those news reports “undermine confidence and confuse the public.”

- The campaign finance system, which increases the power of the well-off to influence who runs for office and who has the money to become known to the public, and ensures access for donors while reducing accountability to the majority.

Like all problems, we can fix those and stop the upward redistribution of wealth by the states to businesses, which professor Kenneth Thomas, a University of Missouri-St. Louis political scientist, estimates runs north of $70 billion annually, a figure I believe is conservative, especially after reading the new research by Rubin and Boyd.

That $70 billion is a terrible waste of state and local government resources. If Cuomo is serious about tax reform, he should attack and dismantle the $1.7 billion his state takes from all to give to a few without creating a single job.

Don’t hold your breath.

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