State Government
Targeting in Economic Development:
The New York Experience

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New York State has made extensive use of social, geographic, and sectoral targeting in economic development. It has targeted both distressed industries, particularly manufacturing, and growth industries. When the initial assistance provided to manufacturing in the 1960s did not stem the decline of this sector, the state responded by providing larger subsidies. Even though manufacturing continued to decline, both absolutely and relatively, support for its preferred status has, nevertheless, remained strong, and few of the programs initially aimed at this sector have seen any significant changes in their manufacturing focus. Efforts to target distressed areas and individuals, however, were not sustained over time. The state's two most significant efforts at geographic targeting were expanded statewide over relatively short periods of time.

As an explicit governmental function, economic development is a new activity. Despite its late start, economic development policy has evolved to the point where it is now a recognized function of all governments in the federal system—national, state, and local. This is especially true of the states. A study of state-of-the-state addresses found no mention of economic development in 1970, but by 1983 it was a main theme of one-third of the governors. Economic development, according to another recent survey, ranked behind only education and revenue as a priority issue of governors. Perhaps most importantly, voters hold governors and legislators accountable for economic development performance despite the predominance of national, international, historical, and organizational variables beyond their control.

The issue is not whether the states should be deeply involved in economic development. They are. In New York, state and local governments account for over half of all net investment in such areas as education, infrastructure,

and power generation. In addition to having a significant impact on the economy through direct expenditures and investments, state and local governments continue to carry the wide variety of infrastructure, regulatory, and service responsibilities which have traditionally made economic development possible. In recent years, moreover, there has been a proliferation of specialized efforts to promote economic growth; foster the expansion, relocation, or modernization of individual firms; and encourage the creation and retention of employment.

The specific types of aid involved include not only direct grants and loans, but also reductions in business costs that are under the direct or indirect control of government (most frequently taxes, but sometimes other costs, such as energy and land), subsidization of certain business costs (for example, reductions in the cost of labor through customized job training or even the payment of the wages of new employees when they are in training status), and the provision of physical, social, or economic support services that directly assist a business' operations (e.g., the construction of rail sidings or access roads for a particular company's use). New York is as active a participant in this field as any state, demonstrating extensive agency and program proliferation, duplication, and overlapping.

Despite the fact that the states have economic development programs, there is no generally accepted understanding of the types of economic development activities that state governments, as distinguished from local governments and Washington, should undertake. Nor has there yet developed any knowledge of what works in different situations or any consensus as to whether states should use their resources to assist individuals and regions in need or to facilitate and promote economic development generally.

Historically, economic development as a federal government activity focused primarily, but not exclusively, on policies and programs intended to affect aggregate economic growth. Effectiveness was judged by progress on such macroeconomic measures as population, production, output and output per capita, personal income and personal income per capita, and total employment and unemployment rates. More recently, the attention given to regional economic disparities within and between states has meant a greater emphasis on programs that seek to create a more even distribution of the benefits of national and state economic advances. Examples of such efforts by the federal government, have included the Tennessee Valley Authority, the Appalachian Regional Commission, and the Urban Development Action

Grant (UDAG) program.

While economic development programs, and the objectives of such programs, have proliferated, performance evaluations have not. We know relatively little about which government programs, if any, make a difference in regard to the traditional measures of overall economic activity. Moreover, the evaluation studies that have been done have not focused on the extent to which such programs have affected disparities among regions or segments of the population. It is, in fact, an open question as to whether targeted programs actually have a greater impact than untargeted programs in reducing such disparities.

This article examines the types of targeting measures that one state has used in the allocation of economic development aid. In New York’s wide array of economic development programs, targeting is the rule not the exception, but distressed communities and distressed individuals have not been the only, or even the most common, targets. New York has focused more frequently on distressed industries, but it has also targeted high technology and other perceived “growth industries.” New York has provided special benefits to manufacturing both as a distressed industry and as the foremost “engine of growth,” but it has never abandoned its attachment to agriculture, nor did it fail to seize opportunities for promoting tourism in the late 1970s. It has attempted to stimulate its economy by cuts in marginal tax rates for all taxpayers, but it has also provided targeted tax relief for certain kinds of taxpayers and for taxpayers who engage in specified activities.

**TARGETING DISTRESSED INDUSTRIES**

Economic development as an organized governmental activity in New York emerged from a concern with the problems of distressed industries during and immediately after the Depression and from a recognition of the structural change that would undoubtedly confront the economy after World War II. The New York Department of Commerce was established in 1941, after six years of deliberations by a series of legislative committees that were established to examine how New York should assist key economic sectors in adjusting to structural change and improving labor-management

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In the 1940s, the new department’s major activities involved facilitating the structural adjustments necessary for war and postwar production. Early projects focused on such sectoral targets as the pulp and paper industry, the leather glove industry, the production of iron ore and other undeveloped mineral resources, and maintaining an inventory of available plants and facilities as a service for manufacturers seeking to expand.9

New York’s concern with distressed industries continues to the present. In 1984, Governor Mario Cuomo issued an executive order creating an Industrial Cooperation Council (ICC) to coordinate the responses of state agencies to plant closings and the other problems confronting industries challenged by international competition and declining productivity. The ICC defined distress as decline in employment, output, and sales resulting from import penetration and decreasing productivity. Job loss, and the accompanying dislocation within communities, was seen as the most salient dimension of distress, and much of the concern about distressed industries focused on the ability of dislocated workers to find new jobs at wage levels comparable to what they had been earning. Studies by both the ICC and the state Department of Labor found, as did studies by national agencies, that most dislocated workers remained unemployed for up to three years after being laid off and that only a third of those reemployed found jobs at comparable wage levels.10

In response to this situation, the ICC helped to negotiate a compact between the state’s largest business organization and the AFL-CIO. Announced two years after the ICC was established, this agreement affirmed a series of principles for cooperation in confronting the problems caused by structural unemployment. In addition, the subjects of plant closings, international competition, and employee ownership were selected for intensive study.


Targeting Manufacturing

During the past thirty years, New York State’s concerns regarding distressed industries have had their most tangible manifestations in a number of programs targeted specifically at manufacturing. During this period, New York amended its tax laws in a variety of ways intended to benefit manufacturing and established a public benefit corporation, the Job Development Authority (JDA), to provide long-term, low-interest fixed asset loans to manufacturers. The state gradually expanded JDA’s borrowing authority from $50 million to the current level of $600 million, which was approved by the state’s voters in 1985. It also established, usually at local request, over 175 Industrial Development Agencies in localities throughout the state to sell industrial revenue bonds (IRBs) on behalf of private businesses.

The American public philosophy which supports the specific encouragement by the government of manufacturing dates back at least two centuries. In 1791, for example, Alexander Hamilton issued his famous Report on the Subject of Manufactures which called for federal support of efforts promoting the growth of manufacturing industries. In New York, support for this sector, as the engine that drives overall economic growth, has been the most consistent theme in the history of the state’s economic development activities.

The New York State Commerce Department has traditionally emphasized the importance of the multiplier effect of manufacturing jobs. The analyses which it has prepared and distributed to document the primary, secondary, and tertiary impacts of such jobs have significantly affected the views of the state’s public officials and industrial developers. Governor Nelson A. Rockefeller, in his 1962 State-of-the-State Message, for example, argued that $100 million in bonding for the JDA could assist in creating 70,000 new industrial jobs, and that this could generate 120,000 related services jobs in the state.11 The basic view of state officials has been that state assistance should be limited to “activities essentially of a manufacturing nature because it is such activities which, in proportion to the amount of investment in their plants, are high in the production of jobs.”12

New York has utilized tax incentives and other tax preferences as a cornerstone of its economic development efforts and, in doing so, placed a primary emphasis on targeting those preferences to manufacturing. The state began its intensive use of tax preferences for manufacturing in the 1960s, when its manufacturing sector began shutting down, preceding all other states in a long-term trend of manufacturing decline. By 1968, as its industrial mix

12Memorandum from Job Development Authority to the Counsel to the Governor recommending that the governor veto a bill that would have allowed it to assist in financing the construction and improvement of commercial storage facilities unrelated to manufacturing plants. In Bill Jacket on 1965 Veto of Senate Bill, Introductory Number 3319, Print Number 3557. Bill Jackets are maintained by the Counsel to the Governor on each legislative bill passed by both houses and forwarded to the governor for action. These Bill Jackets, which contain memoranda and correspondence relating to the legislative bill involved, are maintained by the New York State Library for legal and historical research purposes.
became more concentrated in those manufacturing industries that were declining fastest, the state began to lose employment rapidly.

In 1963, the state gave business taxpayers the option of an accelerated "double depreciation" for writing off their investments in buildings, machinery, and equipment used in manufacturing, agriculture, horticulture, and other goods-producing activities. Governor Rockefeller, in approving this change, wrote that this system of double depreciation, together with a one-year write-off for scientific research facilities, which was being enacted at the same time, "will stimulate new manufacturing construction and the modernization of existing plants in the State." 13 Five years later, in 1968, the Urban Job Incentive Program (UJIP) was established, providing even more substantial tax breaks for firms making job-creating or job-retaining investments in manufacturing facilities in targeted inner city areas. This program could provide a taxpayer with a complete exemption from all state corporate income taxes for up to ten years and, at local option, property tax relief of varying amounts. As is discussed below, the UJIP's eligibility criteria were gradually relaxed until its benefits were available anywhere in the state. The following year, New York replaced its system of double depreciation with a 1 percent investment tax credit (ITC). Unlike the federal investment tax credit, which was available to firms in all industries, the New York ITC was limited to the same manufacturing and other goods-producing industries to which the accelerated depreciation option was available.

The Department of Taxation and Finance, in supporting the bill establishing the ITC, pointed out that: "As an old established manufacturing state, New York has many obsolete production facilities," and that "owners of such enterprises often compare the relative merits and advantages of locating new facilities outside New York, especially in regions offering some form of tax incentives." It concluded that the new credit "should substantially improve New York's competitive posture and economic climate." 14 The subjective nature of this goal makes it virtually impossible to determine whether the ITC has accomplished its intended objectives. It is clear, however, that the ITC did not stem the decline in manufacturing jobs. The state lost 500,000 manufacturing jobs between 1968 and 1985. Value added and investment in manufacturing, and manufacturing output, all declined in New York during that seventeen-year period, as did the state's share of U.S. manufacturing. That continuing decline, however, provided state policymakers with a reason for providing larger subsidies to this sector.

The fiscal crisis of the mid-1970s, and the back-to-back recessions of the early 1980s, helped to create a political environment in which state policymakers decided to commit additional assistance to this important but declining sector of New York's economy. In 1974, as the decline in manufac-

13 Governor's Memorandum of Approval, Chapter 446 of the Laws of 1963, Assembly Bill, Introductory Number 4717, Print Number 5643, 2 July 1965.
14 Memorandum from Department of Taxation and Finance to the Counsel to the Governor recommending that the governor sign the bill establishing the 1 percent investment tax credit.
Targeting Development in New York

turing accelerated, the state doubled the rate of the ITC to 2 percent. Later in the following year, in the midst of a fiscal crisis, legislation, which was primarily intended to help resolve the state's budget deficit by increasing a variety of tax rates, also included a number of new tax preferences for manufacturing. A taxpayer who claimed an ITC was allowed an additional credit, an Employment Incentive Credit (EIC), in any one or more of the next three years in which the taxpayer's average employment in the state was 101 percent of its average employment in the state in the year preceding the year in which the ITC-eligible investment was made. The additional credit would be equal to one-half of the amount of the ITC claimed. For taxpayers meeting the threshold, this change could increase the value of the ITC by as much as 150 percent.

In addition, a new formula for allocating income to New York was established. This change increased the tax burden of firms that had a greater share of their total sales in New York than the share of their property and payroll in the state, and it decreased the taxes of firms that had a smaller share of their sales in the state when compared with their property and payroll. While not mentioning manufacturing by name, this change was intended to benefit firms that produced goods in the state and sold them elsewhere, thus bringing wealth into the state. In 1977, legislation was enacted temporarily increasing the rate of the ITC, in several steps, to 4 percent. The following year, the 4 percent rate was made permanent and immediate; and, in 1981, it was increased, in two steps, to 6 percent. Because of the way in which the EIC was piggybacked on the ITC, a taxpayer could receive a credit of up to 15 percent of the value of manufacturing investments in the state.

Even with these increasing preferences, plant closings and permanent mass layoffs continued to be problems for the state. Manufacturing employment and output declined, imports penetrated local markets, exports decreased, and successful market adjustments to new industries and labor markets were rare. Until recently, however, the state never required any systematic evaluation of the impact of its tax preferences, despite their apparent inability to halt the decline in the state's manufacturing sector, their increasing cost, and the fact that the majority of studies of state and local business tax incentives indicated that they do not significantly affect business investment decisions.15

In the early 1980s, a special legislative study commission discovered that credits were being carried forward in enormous amounts because many firms had tax liabilities that were dwarfed by the credits for which they were eligible. In 1982, for example, $136 million in ITCs and $54 million in related EICs were claimed, while $133 million in credits went unused and were car-

15Richard D. Pomp et al., "Can Tax Policy Be Used to Stimulate Economic Development?" *American University Law Review* 29 (1980). In 1987, the state enacted legislation (Chapter 817 of the Laws of 1987) requiring the commissioner of taxation and finance to submit annual reports presenting basic descriptive data regarding the number and value of the tax credits claimed and used by tax year.
ried forward for use in future years.

The Tax Study Commission also found that only two corporations accounted for 40 percent of the more than two-thirds of a billion dollars of ITCs and EICs claimed from 1970 to 1982, and that of the 235,000 firms paying corporate taxes, 99 percent did not benefit from these credits but were, in effect, subsidizing their cost through higher rates. Moreover, the benefits were highly skewed even within manufacturing. In 1982, less than 16 percent of all manufacturers claimed an ITC and fewer than 6 percent claimed an EIC. The structure of the credits also came under criticism for a number of reasons, including the fact that there was no requirement that tax savings be reinvested. Some corporations that received the largest amount of tax incentives, in fact, reduced their investments in the state.

The assumption that the introduction of tax credits and other special tax provisions would revitalize manufacturing and affect investment decisions is not supported by New York’s experience. These tax incentives, even when combined with the state’s capital financing assistance, did little to stem the decline of New York manufacturing. Among the possible reasons for this situation are that other economic factor costs (land, construction, transportation, energy, labor, and education) weigh heavily in business decisions; that such benefits are easily duplicated by other states; and that there are relatively few footloose firms that can be affected by such incentives. Higher basic rates for all taxpayers, the skewing of benefits toward larger firms, and the lack of focus upon specific sectors all diluted and distorted the impact of these preferences.

Partially in response to the increasing cost of the program and partially as an effort at tax reform, the rate of the ITC was recently reduced to 5 percent. At the same time, eligibility for the EIC was tightened and its benefits were made available for two rather than three years. These changes and an overall corporate income tax rate reduction (from 10 to 9 percent for most firms and from 10 to 8 percent for certain small businesses) were the result of over two years of negotiations following an early 1985 proposal by the Speaker of the Assembly to eliminate virtually all of the preferences which had been added to the corporate income tax over the previous twenty years and to reduce the basic tax rate from 10 percent to 7 percent. Extensive support for manufacturing’s preferred tax status emerged in response to the Speaker’s original proposal, and this was reflected in the finally enacted legislation. In addition, counterproposals to extend eligibility for the ITC to other industries were never given serious consideration by state officials.

The continuation of this and other benefits targeted to manufacturing has proven to be politically viable, and the state has been able to resist efforts to expand these programs to other industries. Only investments in research and development facilities have been given comparable preferences. Such

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facilities are, in most instances, adjuncts to large manufacturing enterprises. Prior to its demise, eligibility for JIP benefits was extended only to one non-goods producing industry (tourism enhancing hotels), and eligibility for JDA loans was extended to research and development facilities and manufacturing-related distribution facilities.

Industrial revenue bonding (IRB) is the only state-authorized economic development activity that was moved significantly away from its original manufacturing orientation. This occurred nationally as well as in New York State. In New York, this shift was facilitated by the fact that the statutes establishing the local Industrial Development Agencies did not legally restrict the use of IRBs to manufacturing.

The manufacturing orientation of these substantial subsidies was diluted over time by development agencies that shifted the focus of financing toward commercial activities. By 1982 most IRBs issued by New York agencies supported commercial as opposed to manufacturing development. In 1983, there was a further 20 percent drop in industrial issues, while commercial issues rose 100 percent.

While IRBs may theoretically enhance regional economic development, if not direct investment, that positive aspect was jeopardized by the virtually universal use of this subsidy device. In addition, the rapid increase in the total volume of IRBs issued by state and local governments nationally forced the interest rate for government bonds to increase, adding to the cost of municipal borrowing and reducing the efficiency of tax exempt bonds as a subsidy.

The slightly lower rate of tax exempt bonds seems to have had little impact on the total cost structure of a firm, making IRBs of marginal, not critical, importance to a firm’s location decision. Most important, the positive effect of IRBs on some localities was overwhelmed by the conclusion of economists and national policymakers that such tax subsidies, when evaluated from a national perspective, are inefficient. While the intent of IRB financing was to subsidize firms in order to generate additional tax revenue, a substantial amount of evidence suggested that large net losses of government revenues rather than net gains resulted. This negative view of IRBs was only compounded by the fact that the businesses making the most extensive use of IRBs were not small and medium-size firms with weak financial structures, but corporate giants, such as Shell, K-Mart, and ITT.

In New York, the use of this economic development device was targeted geographically, but on the basis of what might be referred to as political awareness or sophistication rather than distress. As was mentioned earlier, New York created entities called Industrial Development Agencies as the vehicle for issuing industrial revenue bonds. These IDAs were established as local public corporations attached to and controlled by one, and very occasionally more than one, city, town, village, or county. The first statute of this type was enacted in 1967, and it established an IDA in the City of Troy. Two more were established in 1969, three in 1970, six in 1971, and an increasing
number thereafter. Although some of the first IDAs were located in distressed areas, others were located in suburban areas with many other comparative advantages in the competition for economic development. The process by which the legislature decided where to authorize IDAs was not based on central, comprehensive planning utilizing data about all communities in the state. That is not how legislatures function. Individual IDAs were authorized in response to initiatives taken by various combinations of local officials, local business and community leaders, and the locality’s state legislative representatives.

**Targeting Growth Industries**

New York has also promoted specific innovations, technologies, and industries based on expectations about the changes that are likely to occur, or which can be induced, in industrial growth patterns. These expectations are sometimes, but not always, based on scientific advances. Growth industry targets have also been chosen by intuition and, on other occasions, on the basis of shift/share analysis. This latter type of analysis examines shifts in an area’s economic structure and its share of national employment and output in specific sectors. Further analysis is then done to identify supply and distribution relations as a way of suggesting other possible targets for support.

This approach to targeting was invoked generally by Governor Hugh L. Carey in a July 1979 plan, *Targets of Economic Opportunity: A Strategy for Economic Development in New York State*. The overall theme of this plan was to strengthen state efforts to target support to selected industries identified as having “unique opportunities for growth in New York State.” High technology, motion picture production, and resource recovery were cited as examples of such targets of opportunity. The plan claimed that: “State economic development programs and tools are being coordinated to support this targeted industrial development approach and to focus on ‘targets of opportunity.’” Among the most successful of the Carey administration’s efforts at sectoral targeting was international banking. By securing legislative enactment of its proposal for an international banking free-trade zone and for tax breaks for international banking facilities, the Carey administration caught an important economic trend at just the right time. These efforts either caused or ensured a tremendous expansion in the number of foreign banks with operations in New York City.

A less successful example was Governor Rockefeller’s interest during the early 1960s in “the peaceful uses of atomic energy.” Nuclear energy was a classic case of an emerging industry in which extensive commercial and industrial applications were anticipated. In a 1959 report, the New York State Office of Atomic Development commented that:

probably the most disturbing single fact is that the expanding neon-weapons portion of the atomic industry, where the bulk of private investment in research and manufacturing facilities is being concentrated in anticipation of a large future market, has to date not been seeking New York as a principal site.18

Efforts to address this "problem" became a major objective of Rockefeller's economic growth program. Not only did he establish the Office of Atomic and Space Development, but he successfully sought legislation to establish a financing agency, the Atomic and Space Development Authority, to promote and develop new facilities in the field of nuclear energy. One of the governor's proudest accomplishments in this regard was the $30 million Western New York Nuclear Service Center, the nation's first state-sponsored, privately owned, nuclear fuel reprocessing plant. This facility later became the albatross known as West Valley, the clean-up of which ultimately required a state and federal bail-out.

After the energy crisis of 1973 and amid increasing skepticism about the future viability of nuclear power, the Atomic and Space Development Authority was reconstituted as the Energy Research and Development Authority. It was given an independent source of revenue—a levy on the gross receipts of the state's electric and gas utilities—and was charged with funding research, development, and demonstration projects in two new target areas, alternative energy technologies and energy conservation technologies.

A general belief in the economic impact of new technologies resulted in New York's establishment, in 1963, of a state Science and Technology Foundation. This agency continued operating for the next twelve years at relatively modest funding levels, making grants, primarily to universities, to initiate or solidify activities in the basic sciences that are of underlying importance to industry. During the state's fiscal crisis in the mid-1970s, the foundation lost its state funding. This situation continued for several years until the late 1970s when the states generally began to rediscover scientific and engineering research and development as keys to economic advancement. Since that time, New York has made the Science and Technology Foundation a major focus for new economic development initiatives. The major objectives of the foundation are to develop scientific research and advanced technology as a means of promoting economic growth and to link educational and business resources in order to maximize the development and application of technology.19

In 1980, the foundation contracted with the Battelle Memorial Institute to assess the potential for expanding various industries linked to new and evolving technologies and to provide a detailed strategy for the retention, expansion, and attraction of such industries. The results of that effort have,

18 New York State Atomic and Space Development Authority, Ten Years of Atomic Progress in New York State, August 1969.
with some updating, served to guide the foundation’s various grant programs since that time.

SOCIAL TARGETING

Economic distress among people rather than firms or industries has been a common theme of economic development aid. The establishment of the New York State Urban Development Corporation (UDC) and the state’s many job training programs are both evidence of the state’s ongoing concern for individuals in distress, particularly those residing in distressed areas. Neither of these efforts has ever delivered fully on the intentions of their sponsors. The UDC was created in 1968 to address the problems of the state’s deteriorating inner cities. By the end of the next decade, the UDC was being criticized by the legislature’s Black and Puerto Rican Caucus and by others for having allowed this original focus to dissipate. In response to these criticisms, Governor Carey began a new UDC High Risk Targeted Investment Program to focus UDC’s economic development activities on the problems of minorities and inner city areas.

Between 1981 and 1987, however, the narrow focus of this new program was also broadened. In 1981, when the first funds for the program were appropriated, UDC guidelines provided a very narrow focus. “High risk investments” were seen as investments in inner city areas that faced redlining by banks or were hit hard by crime and social problems. The goal was to provide support for investments in locations where they would not otherwise be made.

By 1985, nonurban areas were included, and unemployment and economic deterioration criteria were less restrictive. Moreover, the program’s original measure of “socioeconomic distress” (that the percentage of people below the poverty level and the percentage who receive public assistance be 180 percent of the statewide average) was replaced with a measure based on the percentage of families with incomes which were 80 percent or less of the statewide median family income. This change expanded greatly the number of areas in the state where grants and loans could be made through this program. At the same time, the program’s operational focus shifted from distressed areas to investments that were risky from a business perspective.

Targeting is widespread in the job training field. A recent study found that New York has no less than forty-two different employment, training, and remedial education programs administered by eight separate state agencies with total expenditures in excess of $380 million annually and a variety of targets. Hardcore unemployed, recently dislocated workers, women,


welfare recipients, youth, and immigrants have all been the focus of various job training programs. One example of such a targeted program is the federal Targeted Jobs Tax Credit Program, which is administered by the state. In this program, the key activity of the state Department of Labor is to determine the eligibility of applicants as being part of a number of target groups, including youth between the ages of 18 and 24 from economically disadvantaged families, welfare recipients, and economically disadvantaged Vietnam veterans. The number of certifications steadily increased from 1979 to 1985. The number of eligibility determinations performed (total vouchers) and the number of TJTC vouchers issued (original vouchers) increased yearly, with a slight decline from 1984 to 1985. About a third of the individuals eligible became employed by companies that requested and received tax credit certifications.

However, this type of federal program, while helpful, is not useful for the majority of targeted workers. As with the tax incentive programs, the TJTC credit is attractive as a wage subsidy only to those firms that can benefit from a tax credit, that is, with a positive earnings position. Distressed firms or growth firms that show no positive earning during initial start-up years have no incentive to participate in such a program. Thus, the effectiveness of the program in hitting its target is constrained by the nature of the tool being utilized.

Another targeted job training program, the federal Job Training Partnership Act, permits utilization of some federal funds for dislocated workers. In New York, aggregate unemployment rates were used as the criteria for distributing those funds as opposed to more specific measures that would target specific levels of worker dislocation. Aggregate targeting criteria were more politically acceptable because industrial dislocation is more geographically specific than the more evenly distributed levels of employment.

**GEOGRAPHIC TARGETING**

Geographic targeting differs from social and sectoral targeting in its assumptions regarding the means of identifying and delivering programs and services to at-risk populations or firms. Geographic targeting assumes that distress is locationally specific—that there is a high correlation between social and sectoral problems and how they are distributed geographically. Place-specific approaches have dominated much of the thinking and practice in the economic development field since the 1960s. The underlying thinking is that if economic problems can be identified and delineated by geographic boundaries, then the delivery of services and aid can be targeted more effectively.

New York has experimented with geographic targeting in the field of economic development, but has not sustained any such targeting for long periods of time. The state's two most significant efforts at geographic targeting were the Job Development Authority (JDA) loan program and the Urban Job Incentive Program (UJIP). Both began with very specific targets...
and both were expanded to have general, statewide applicability—the JDA over a five-year period, and the UJIP in a series of expansions over nine years. The latter program was subsequently repealed following significant media scrutiny and criticism.

At present, two geographically targeted programs are in operation: the Regional Economic Development program, established in 1985, and the Economic Development Zones program, established in 1986. While neither of these programs has been in existence long enough to reach any conclusions regarding its long-term political viability, it is important to note that neither is as tightly restricted as were the original JDA and UJIP statutes. Both of these current programs provide the administering agencies with the flexibility to make grants or select zones that do not meet the statutory criteria.

Job Development Authority

When the Job Development Authority was first created in 1962, it was only authorized to make loans in so-called “labor surplus areas.” The establishment of the JDA required an amendment to the state constitution which, in turn, required the approval of the state’s voters. The proposal, which was approved at the November 1961 election, referred to the creation of a public corporation that would be authorized to lend state monies, not to exceed $50 million, “for industrial and manufacturing plants to provide additional employment in depressed areas.” Five years later, the legislature presented another constitutional amendment to the voters in order to allow JDA loans to be made “to improve employment opportunities in any area of the state.”

This amendment was also approved by the voters. When the program was first established in the early 1960s, one-party (Republican) dominance of the governorship and a majority of both houses of the legislature had existed since 1943. The Democrats, after winning control of the legislature in the 1964 Lyndon Johnson landslide, proposed a constitutional amendment to expand the geographic scope of the JDA’s operations. The main sponsor of the proposal was a new member of the Senate from a suburban, swing district, which was not eligible for JDA loans under the existing criteria. In 1966, a gubernatorial election year. Governor Rockefeller, a Republican, joined in advocating the required second passage of the amendment by the legislature and integrated his efforts on behalf of the voter referendum on the matter with his own reelection campaign.

The practical result of these changes has been a program which, in practice, has been targeted to opportunities rather than need. Since its founding, JDA has made more than 1,600 loans totaling $308.4 million. The lion’s share of these funds has gone to Long Island, one of the state’s most prosperous areas. This region has 17 percent of the state’s population, but has received 38 percent of all JDA funding. Some of the state’s major manufacturing
centers, on the other hand, have received little funding.22

A recent evaluation indicated that JDA loans tended to follow, rather than lead, the geographic patterns of new economic activity in the state. Development agencies, financial institutions, and firms in growth areas effectively mobilized their internal resources to externalize financing costs to the public sector. The ability to prepare financing prospectuses, generate business plans, lobby industrial development agencies, and organize effective underwriting of public debt securities was skewed toward areas of relative concentration of growth.

As early as 1966, in remarks at the opening of Republican Campaign Headquarters in West Babylon in Suffolk County (the eastern two-thirds of Long Island), Governor Rockefeller noted that JDA had "done more to help bring new or expanded industries to Suffolk County than to any other county in the State." JDA had made more loans in Suffolk than any place else in the state, and Rockefeller complimented the area's industrial development agencies "for the vigorous way they have sought out this state support for your local industries." The argument that the JDA follows development instead of targeting areas where it is not occurring was also underscored by the governor's remarks. "When an area is growing as fast as Suffolk County is, you don't stand by and just hope enough jobs will develop to support the growing population. If you are a responsible government, you go out and fight for new industry and new growth."23

Job Incentive Program

New York's most significant experiment with geographic targeting, in terms of dollar investment and duration, was the Job Incentive Program. This program was enacted in 1968 and repealed fifteen years later. Firms designated for participation pursuant to applications filed prior to the date of repeal could continue to receive tax credits for up to the program's statutory maximum of ten years.

The program was proposed by Governor Rockefeller in 1968 as part of his proposed response to the "urban crisis." Initially called the Urban Job Incentive Program, Rockefeller's legislation called for deep and long-term tax credits for firms making significant job-creating or job-retaining investments in the poorest neighborhoods in the state's six largest cities. The eligible neighborhoods were selected by the use of a single criterion, median family income. Eligible investments were defined as investments that resulted in the creation or retention of five of more jobs in the poorest (in terms of median family income) one-fourth of all census tracts in those six cities.

In order to ensure that the benefits of the program reached the residents of the targeted areas, the program's eligibility criteria included a require-

ment that a participating firm operate an approved job training program for local residents and that it provide continuing employment opportunities for those residents.

The program’s targeting, however, did not stop with this focus on distressed places. It also engaged in sectoral targeting. To be eligible, a business had to serve an area larger than the area where it was located. This was designed to introduce the notion of sales outside the area (i.e., a focus on manufacturing facilities and wide-area distribution centers). Retail establishments, hotels, and apartment houses were explicitly excluded from receiving benefits under this program. Only tourism-enhancing hotels were later included in the program.

The efficacy of such dual targeting raises obvious questions and has been the subject of considerable debate. The advocates of this approach argue that tax benefits should only go to firms that enhance the economic base of the area by bringing in wealth from outside the area. The opponents contend that it is difficult enough to get investors or entrepreneurs to make any kind of job-creating investments in such distressed areas and that the state, consequently, should take whatever it can get.

The original program drew support for a number of reasons. It was praised as one that would rebuild the urban core areas of the largest cities of the state, encourage businesses to provide job opportunities for the residents of these areas, and ensure that the business concerns that benefited from the program helped prepare such residents for employment.

In 1970, after considerable debate, the legislature enacted three significant expansions of the program’s geographic targets. First, the program was expanded to distressed neighborhoods in nine slightly smaller cities. Second, the criteria for determining which tracts in the designated cities were eligible were made somewhat looser. Lastly, the program was extended to rural areas on a county aggregate basis rather than a tract-by-tract basis. Investments in approximately twenty-two counties with per capita personal income of 25 percent or more below the statewide average were made eligible for tax benefits. Since the program was no longer limited to cities, it was renamed the Job Incentive Program.

Controversy continued during the 1970s over proposals to expand the area covered by the program. Legislators from the state’s southern tier, for example, attempted to extend eligibility to investments in any county in New York that was included in the multistate region defined by the U.S. Appalachian Redevelopment Act of 1965. Ten of the fourteen Appalachian Region counties in New York were included under the JIP law’s enumerated eligibility requirements. The proposal would have allowed the four remaining counties to be included solely on the basis of their location within the Appalachian Region. The major argument of the bill’s supporters was that the federal government had classified all fourteen counties as economically underdeveloped and that, therefore, they all should be given every opportunity to attract new industry and encourage existing industry to expand in
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their communities in an attempt to alleviate unemployment. In 1973, this legislation passed both houses of the legislature, but it was vetoed by the governor on the ground that it would "distort the Job Incentive Board Program by permitting its benefits to be allocated on a geographical basis rather than pursuant to sound economic considerations."

The Department of Agriculture and Markets argued that "the passage of this bill could easily establish a precedent which could lead to most of the State becoming eligible under one or another of many classifications, which would destroy the program's ability to serve as an inducement to locate in the really poor regions of the State." The Department of Commerce concluded that expansion of the program would lead to less dramatic results in creating jobs and training opportunities in the poorer areas of the state. It noted that if the JIP "included most of or much of the prime locations in the State, the Program's ability to serve as an inducement to locate in the really poor areas of the State would be destroyed" and recommended refining the program's eligibility criteria to enable the identification of poorer areas of the state, rather than adding to the existing eligible areas. The department anticipated the evolution of the program into an "industrial development tool" and argued that the costs of granting tax credits for all expansions and new facilities in the state would be prohibitive.

The main concern of the Department of Taxation and Finance was that the bill, if it became law, would "set a precedent for allowing a tax credit under the job incentive program for counties which are not rural and which do not meet the present criteria of creating jobs in areas of low income. This precedent, in turn, could lead to further pressures to expand the program throughout the State without regard to the program's purpose of encouraging investment in parts of cities and rural counties of low income."

This legislation was passed again in 1974 and was again vetoed. In 1975, however, the bill was passed and approved by the new governor, Hugh L. Carey. Although many of the same arguments were submitted by opponents of the earlier efforts, the governor concluded that the arguments in support of the bill outweighed those of the opponents. It should also be noted that between 1974 and 1975, party control of the governorship and the state Assembly had changed, and that the two most populous affected counties were represented in the Assembly by Democrats who had defeated incumbent Republicans. In signing the law, however, Carey anticipated the future pressures to extend the program statewide, and, in fact, conceded that "this may well be an appropriate element within a comprehensive economic development program to address the problems of all regions of the State."

Subsequently, in 1976, while New York was in the depths of its economic decline, the program was temporarily expanded statewide. In the political

25 The comments of the departments of Agriculture and Markets, Commerce, and Taxation and Finance are from memoranda in the Bill Jacket on the 1973 Veto of Senate Bill 4486.
26 Governor's Memorandum of Approval, Chapter 536 of the Laws of 1975.
Economic governments of that time, state policymakers were willing to try almost anything in the name of economic development. When the statewide availability of the program was made permanent, it was heralded as a comprehensive economic development program that would address all regions of the state. As it turned out, the program fulfilled neither its original targeted objectives during its early years nor its comprehensive objectives in its subsequent expanded form. Ultimately, the program became the subject of significant media criticism and was eliminated in early 1983 in the context of a substantial state budget deficit.

**Economic Development Zones**

New York enacted economic development zone legislation in 1986, the 34th state to establish such a program. During the debate over the governor's proposed bill, a number of questions were raised: How many zones? What type of incentives? What criteria for zone selection? What requirements on local governments as a condition for zone acceptance?

Eligibility criteria proposed as indicators of distress included unemployment rate, percent of families below the poverty level, percent of households below 60 percent of median income, the relationship between the percent of families within the tract who were receiving welfare and the state average, and population decline.

Given that the zone legislation was enacted relatively late in the life of this "innovation," its development and refinement were informed by the various federal bills that had been introduced and the laws that had been enacted by other states. After considerable negotiation between the executive and legislative branches, with the governor suggesting more restrictive criteria for zone eligibility than the legislature, the following selection criteria were adopted: each zone had to include and be based on a census tract that had a poverty rate of 20 percent, an unemployment rate of 25 percent, and a population of at least 2,000.

After initial drafting, it was discovered that these criteria excluded most rural poverty areas from consideration. An additional clause was added, which allowed counties to qualify for zone designation if they did not meet the above criteria but the employment rate averaged 25 percent or more over the past two years and the poverty rate was 13 percent or more. In addition, a provision was added to the bill allowing communities to submit other evidence to the board administering the program to prove that they were "distressed." So far, two zones have been so designated. Given the numerous areas within New York City that qualified, a provision was added to prohibit more than one zone being designated within a single county during any three-year period. Given that New York City consists of five counties, this was a way to avoid concentration of zones in that city. While this provision was necessary in order to achieve enactment of the legislation, it ran contrary to the notion of targeting on the basis of objective criteria.
Aside from the law’s quantitative criteria, a number of other matters were to be addressed in zone applications (e.g., local contributions to the zone, private sector participation, local matches for development support) but no objective or consistent standards were established for evaluating these aspects of zone applications. The Zone Board was authorized to select zones through a competitive process that would consider local organizational capacity and local willingness to generate additional aid.

Benefits targeted to areas designated as economic development zones include reduced utility rates, a wage tax credit, an increase in the state investment tax credit from 6 to 10 percent, forgiveness of state sales tax, a 25 percent corporate tax credit, a complete exemption from property taxation, and a preference for the grants and loans available under state development financing programs.

The economic development zone program is intended to provide additional incentives for businesses to locate or expand in distressed regions of the state. While preferential status may facilitate additional direct financing subsidies, the statute contained no “hard dollar” investment in the zones, nor did it provide concrete responses to the need for working capital, qualified labor pools, affordable insurance, and child care.

The program does, however, contain some advances over earlier zone programs. It is more selective and highly competitive, and it requires local commitment. Additional selectivity has facilitated zone success in New Jersey, Connecticut, and California.

Enterprise zones represent a relatively recent initiative, but evaluation research so far suggests that they do not provide a quick fix for the complex problems facing urban entrepreneurs and distressed areas. The British experience—the most extensive to date—has been mixed: from 1981 to 1983, Britain’s fifteen zones created only 8,000 new jobs at a cost to taxpayers of over $500 million.

**CONCLUSION: MISSED TARGETS**

The anomalies of recent experience in economic development are striking. High levels of aggregate economic growth have been achieved while the targets of economic development—structural unemployment, pervasive and growing rates of poverty, and uneven regional growth—persist, unaffected by enormous programmatic efforts. Often, economic development has happened without any economic development policy at all, or it has happened in spite of it. The targets of economic development policy (sectoral, geographic, and social) often remain insulated from structural shifts in the economy and the

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benefits of growth.

Several general characteristics of economic development targeting suggest why programs miss their mark. There is insufficient definition or analysis of targets: precise measurable and mountable definitions of high technology, economic distress, and so on are not crafted. Targets change with shifting political pressures and administrative changes, and high-risk populations are redefined by budgetary constraints and political convenience. Insufficient information about economic sectors inhibits the specification of policies (e.g., manufacturing tax incentives, zone incentives, or job incentives). The proliferation of organizational units implementing policies duplicates efforts and dilutes the impact of targeted spending. Lack of coordination (between and among programs, agencies, and governments) promotes inefficiency and waste. The absence of links between labor market efforts (e.g., job training programs) and capital market initiatives (e.g., tax incentives and direct financing) inhibits the achievement of economic development objectives. Development aid more often follows patterns of economic growth rather than fostering growth in distressed areas. Hence, aid reallocates existing resources without creating new resources. The use of indirect instruments (e.g., tax incentives) rather than direct investment approaches, costs public money and raises tax rates while producing only marginal benefits. This, in turn, generates greater inequities between sectors and population groups.

The scatter-shot approach of multiple targets limits the effectiveness of any one strand among the variety of cross-cutting purposes involved. There are several, not inconsistent, explanations of New York’s multiple targeting. One is that the government is reluctant to place all its eggs in one basket or even in a small number of baskets. Such an aversion could be motivated by a concern that the chosen strategies might fail and that those not pursued might have worked or might have worked better. It could also be that a logical analysis of our political process might lead a rational governor or legislative leader to conclude that he or she could avoid plausible criticisms from the media, interest groups, or opposing politicians by having something of everything. Both of these explanations are related to the fact that there is no popular, professional, or political consensus as to the objectives that state economic development programs should pursue or the programmatic approaches likely to secure particular objectives. The outcome is a dizzying array of programs and an alphabet soup of agencies that confound the public and frustrate firms seeking business development support.