

Amazon HQ2 – A Good Deal for New York?

It is not surprising that the decision by Governor Cuomo to give Amazon \$1.8 billion in grants and refundable tax credits to come to New York City for half of their second headquarters generated controversy. Some have questioned the need to subsidize Amazon given New York's labor pool advantages^[1], and the amount of money given the company to lure them to New York. Others have questioned why New York would pay billions to encourage a business to locate in the part of New York State that is already doing well when the economy of much of the rest of New York is stagnant. Residents of the area express concerns about likely higher housing prices and additional congestion resulting from the project.

To be sure, the process used by Amazon to choose its second headquarters sites, aptly dubbed "the hunger games" was structured to create a bidding war between potential locations. And, there is no doubt that granting location incentives to businesses like Amazon has many downsides:

- It shifts the costs of existing government services to other taxpayers in unfair ways.
- It imposes additional subsidy costs on taxpayers who do not benefit.
- It creates an expectation by other businesses considering relocations or expansions that they can get the same kinds of subsidies that Amazon received.

New York's offer to Amazon consisted of a \$505 million capital grant toward the \$3.686 billion project cost and up to \$1.2 billion in refundable tax credits through the state's Excelsior program. Virginia offered an incentive package including nearly \$600 million in cash grants, plus \$195 million in infrastructure improvements. Amazon's project cost

in Virginia is expected to be \$2.5 billion.

But, the benefits of the Amazon project to New York are real – 25,000 jobs paying an average of \$150,000 annually to employees. In fact, the Amazon project is by far the largest business attraction opportunity in memory. Even in a metropolitan area as large as New York's, the economic impact is significant, adding \$3.75 billion in payroll spending to the metropolitan area each year, with a total annual economic benefit to the state of about \$7.5 billion.[\[2\]](#) The state estimates that the project will generate \$560 million annually. The cost of incentives would be paid back with additional tax revenue in about three years.

It is helpful to understand the challenges faced by state leaders in responding to Amazon's second headquarters project. The process involved in the Amazon location decision differed from virtually all previous corporate location decisions because of Amazon's decision to create a public bidding war between locations. That meant that every large city in the United States would put together an incentive proposal for Amazon HQ2 – 238 in all.

In most business attraction cases, companies work with site selection consultants that help them identify needs and wants. The consultants winnow down potential sites to a small number that receive serious consideration. From that point, negotiations between companies, consultants and government take place confidentially.

Amazon eventually announced publicly that it had reduced the list of locations being considered to 20. Once confidential discussions began between Amazon and state and local governments, information about competitive offers became harder to obtain. But there was reason to believe that a successful incentive offer would have to be substantial to be successful.

Decision makers in state and city government knew that New Jersey's proposal would receive serious consideration (New Jersey offered \$7 billion in incentives). Because much of New Jersey lies within the New York metropolitan area, it shares the same labor pool advantages offered by New York.

And, as Amazon's ultimate decision demonstrated, the Washington D. C. metropolitan area had many of the same advantages offered by New York City, including a large pool of technology workers (Amazon received an \$8 billion proposal from Maryland).

When governments negotiate corporate location incentives, they face some inherent disadvantages because they have less information than the business. Government negotiators can estimate tax incentives available from competitive locations, but do not know how the company values them. State and local negotiators cannot be certain what discretionary incentives are being offered by competitors. Nor does government know how the company views the advantages and disadvantages of the sites that it is considering. Finally, they cannot know whether companies are telling the truth when they make representations about other offers that they have received.

The difference in sizes between the New York's and Virginia's incentive packages probably reflects several factors. It's likely that one reason New York provided more assistance is the fact that Amazon's New York project will cost almost \$1.2 billion more than the Virginia project. A second factor may be that New York advertises the availability of Excelsior tax credits. Because these benefits are visible to the public in New York's business marketing materials, businesses considering New York locations expect to receive them as a matter of course. As a result, they are not a subject of negotiation.

Additionally, long-term tax credits like the Excelsior program do not use public dollars efficiently. Research shows that long-term tax incentives are heavily discounted by businesses

considering new locations because benefits paid soon are heavily favored over those in future years.^[3] Reducing or eliminating reliance on tax credit programs like Excelsior could save the state money for future business attractions.

It could be argued that state's like New York should refuse to engage in incentive wars like Amazon's, but such a course of action would be difficult from a political perspective. Any governor or mayor who took his or her state out of a competition for thousands of jobs would provide potential future opponents with campaign fodder.

From a public policy perspective, although there are significant negative tradeoffs associated with a public subsidy of the magnitude that was provided to Amazon, the reality is that 25,000 good paying jobs are too many to give away to another location. Even with the very large public subsidy provided to Amazon, there is a substantial net economic and fiscal benefit to the State from securing the jobs for New York.

In the end, financial incentives alone did not determine the choices that Amazon made. In fact, Amazon passed up larger incentives from direct competitors to New York (New Jersey) and Virginia (Maryland). But, to conclude from that New York or Virginia could have landed Amazon's HQ2 without the use of incentives is wishful thinking.

^[1] A recent Brookings Institution brief shows that the New York Metropolitan area has by far the largest number of workers in computer and mathematical occupations.

<https://www.brookings.edu/blog/the-avenue/2018/11/13/for-amazon-hq2-location-decision-was-about-talent-talent-talent/>

^[2] Estimates derived from:
<https://www.governor.ny.gov/news/governor-cuomo-and-mayor-de-blasio-announce-amazon-selects-long-island-city-new-corporate>

^[3] ^[17] Timothy Bartik, 2009. "What Works in State Economic

Development?" In *Growing the State Economy: Evidence-Based Policy Options*, 1st edition, Stephanie Eddy, and Karen Bogenschneider, eds. Madison, WI: University of Wisconsin, pp. 19.