

## Amazon-NYC reversal will aid PPPs in other cities

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Amazon's nullification of plans to build a second headquarters in New York holds lessons for urban economic development

Amazon's abandonment of its second headquarters (HQ2) plans in New York City (NYC) provides insight into limitations of subsidies to attract corporate investment to cities, and the potential value of public-private partnerships (PPPs) as an alternative.



Traffic in Long Island City, where Amazon considered building its second headquarters, New York, November 2018 (Reuters/Eduardo Munoz)

### What next

Despite the public fallout, the failure of the Amazon deal in New York will raise awareness of more transparent ways of enhancing the relationship between business and cities to create economic and social value for all parties. PPPs and carefully regulated incentives can bolster growth and increase living standards across industries and communities.

### Subsidiary Impacts

- Research showing that firms flock to people, not places, suggests cities should fund services and infrastructure, not firms.
- New York Governor Andrew Cuomo tried to persuade Amazon to return but made little progress and the campaign quickly lost momentum.
- Amazon employs 6,600 people in Austin, Texas and will add 800 jobs without incentives, early evidence that cities will learn from HQ2/NYC.

### Analysis

Amazon initiated the process to find a city for its HQ2 as a competition in October 2017, soliciting proposals from cities across North America and promising 50,000 jobs and several billion dollars of construction (see UNITED STATES: Amazon can drive inclusive growth - October 17, 2017). At least 200 cities vied for the business in a secretive process involving non-disclosure agreements.

NYC's Economic Development Corporation (NYCEDC) submitted its bid including four neighbourhoods.

Amazon decided last year to split HQ2 into two, selecting Crystal City in Arlington, Virginia (outside Washington DC) and Long Island City in Queens, New York.

### NYC background

In the past two decades, NYC has repositioned itself again, seeking growth from the technology sector, tertiary education and creative-class fields to offset the disruption to its finance and media industries.

However, as for most innovative US cities, this transformation has been accompanied by an increase in inequality and income segregation. As one of the United States's oldest metropolises, NYC's public physical infrastructure is also old, undermaintained and overutilised. Its politics are Democratic-dominated, borough-based and, in addition, characterised by contestation with state government in Albany.

### Business and community

Critics of the Amazon deal, including the high-profile progressive US representative for New York's 14th Congressional district, Alexandria Ocasio-Cortez, noted that Google has received no state or city subsidies and is believed to have received no incentives that are not available to any business. Google owns a block-sized building in the Chelsea district of Manhattan, has 7,000 employees in the city, and

plans to double its footprint with a 1-billion-dollar, 1.7-million-square-foot campus in the Hudson Square development in Lower Manhattan.

Google has built a record of community involvement in Manhattan while creating 7,000 jobs

Google prides itself on its community involvement, citing 150 million dollars of grants and matching employee-giving to New York non-profit organisations, and its relationships with local organisations such as the New York Public Library and Cornell Tech.

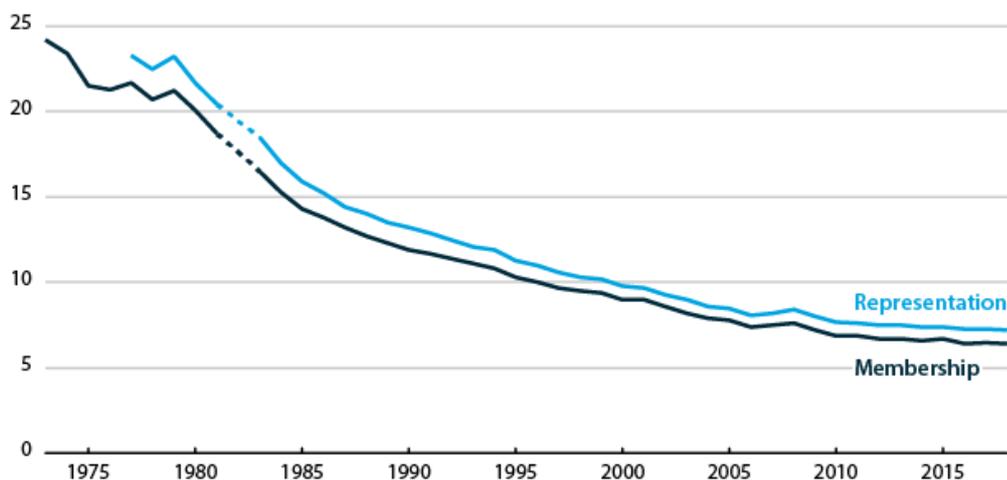
Amazon has faced community relations challenges in its hometown, Seattle. Responding to rising living costs, in mid-2018 the City Council passed a 275-dollar-per-employee corporate tax on businesses with revenues of at least 20 million dollars. Designed to fund affordable housing and reduce homelessness, the tax was scrapped a month later after Amazon threatened to halt expansion in the region.

Although Amazon nominally pays 15 dollars per hour as a minimum wage (in line with Seattle's and more than twice the federal minimum) to all its US workers, it has faced criticism for its labour conditions (see INTERNATIONAL: Gig jobs benefits will slowly improve - March 14, 2019).

Estimates suggests that one in three Amazon workers in Arizona rely on food stamps, meaning they can receive government assistance to buy food through the 'SNAP' Supplemental Nutrition Assistance Program.

Amazon has no unions. It bought Whole Foods markets for 13.7 billion dollars in 2017, which has a Workers Collective, but Amazon has tried to discourage workers from having a voice. It has opposed efforts by the Retail, Wholesale and Department Store Union to unionise 2,500 Amazon workers at a new 100-million-dollar fulfillment warehouse on Staten Island.

### United States: Private sector workers, Union membership and representation (%)



Source: Bureau of Labor Statistics

### Amazon in NYC

Shortly after Cuomo met with the union in February, Amazon announced that it would not pursue its Long Island City HQ2, citing opposition, although that was broader than just labour unions. New York Mayor Bill de Blasio also criticised the company's unwillingness to work with local critics of the deal.

Opposition was fierce. Amazon was due to receive nearly 3 billion dollars in tax credits from NYCEDC and its state counterpart Empire State Development (ESD). Community activists also focused on

concerns about housing availability and affordability, and about transport infrastructure.

Importantly, the secretive process of Amazon's competition and Cuomo's support for the deal kept it out of the standard city review process for large-scale development and rezoning.

Despite earlier support from some officials, opponents included some City Council members, the NYC Comptroller and State Senator Michael Gianaris, who was placed on a board that could veto the deal.

However, a state-wide Siena College poll found that 56% of those surveyed supported the deal, as did four Queens NYC Housing Authority tenant leaders, who argued that the local jobs would be welcome.

Cuomo and Gianaris's history of clashing could partially explain why Cuomo's campaign to persuade Amazon to reconsider struggled to gain momentum.

## Incentives and PPPs

Careful decision-making is crucial when using incentives. In this case, the incentives proved too much, and the competition's secrecy essentially created an auction for public money.

Communities will increasingly explore an alternative model that can provide a more direct route to development -- PPPs, which bring business and government together.

## PPPs

Incentives are used to drive development, but PPPs can do the same and more by creating development and shared community value through physical development, a business and residential district or clustered development.

Examples include the Cornell Technology campus on Roosevelt Island in NYC. An extension of Cornell University, the school was built following a 2010 city competition under then-Mayor Michael Bloomberg to help grow NYC's technology sector. More than 60% of the 534 graduates work locally.

**>60%**

Of the 534 students to graduate from the Cornell Tech campus work locally

Sidewalk Labs, an urban affairs company by Alphabet (Google's parent company), is another PPP, leveraging technology to solve urban problems in the Toronto Waterfront District to make the area a hub for innovation.

## Using incentives

Research concludes that incentives, particularly tax incentives, have little impact as firms tend to base their decisions on people rather than places, locating where highly skilled people, facilities and infrastructure are concentrated (see UNITED STATES: Policy can bolster inflexible places - February 25, 2019).

When implemented correctly, incentives can be useful, by:

- creating competitive advantage, including for BMW, Volvo and Boeing in South Carolina or BMW in Atlanta; and
- driving investment and 'spillover' benefits in distressed areas.

However, key features are crucial:

- The process must be open and transparent.
- Subsidies must drive investment and create competitive advantage in the region.
- Importantly, subsidies should not only bolster the company's bottom line, but also shared

community value, ie, addressing community problems with tangible goals and deliverables.

- How the incentives will work needs to be publicly demonstrated.

Amazon made inroads into community partnerships, promising to work with 150 NYC high schools by funding computer science classes. However, more efforts including a commitment to fund Queens-focused subway repairs, or a direct pipeline with LaGuardia Community College, which has more than 50,000 students in Queens, would have bolstered support for HQ2.