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## **Rudy Saw the Holes in Swiss Bank's Cheese**

Last week, Mayor Giuliani let Swiss Bank move out of New York City rather than enter a bidding war with Connecticut, which was willing to offer free land in Stamford plus \$120 million in tax breaks to lure 1,300 jobs. Connecticut - a state still hemorrhaging from cutbacks in military spending and the insurance industry - gave New York City a chance to demonstrate that sound economic development policy need not involve massive subsidies to large corporations.

New York has always been a high-cost place to do business. More than a century ago, businesses moved from Manhattan to Brooklyn and Paterson, N.J., where there was an abundance of cheap factory space. In the 1950s, garment firms left New York for the South to avoid union work rules and wage rates. In the '60s and '70s, corporations moved to suburban office campuses so their executives would have shorter commutes while enjoying amenities such as free parking and in-house cafeterias and art collections. When technology took over back offices, banks and securities firms moved data processing operations to remote places like Wilmington, Del., and Sioux City, S.D., that were linked by telephone lines to the rest of the world.

In response to the subsidized buildings and low taxes offered by neighboring states to attract businesses, New York politicians gave tax abatements and low-cost loans to keep jobs here. This led to the construction of Metrotech in downtown Brooklyn, and the retention of Goldman Sachs, Chase Manhattan and other large employers. Politically unable to get rid of anti-competitive business taxes - how could we give to the poor unless we robbed from the rich? - our mayors were forced to provide tax relief to the high-profile firms that played the city against competing jurisdictions.

During the Koch and Dinkins administrations, cutting deals took priority over investing in the city's educational and physical infrastructure. When NBC threatened to move to the Meadowlands, Mayor Koch responded with \$100 million in tax incentives that were used to renovate NBC's outmoded studios in Rockefeller Center. City officials feared that GE - NBC's corporate parent and a pioneer in cost-cutting - would move jobs out of the city, though it's unlikely the "Today" show would have survived if it had to import guests to the Meadowlands. The Dinkins administration pursued the same philanthropic policy until 1993, when the price was too high to prevent First Chicago from moving to New Jersey. Now the Giuliani administration has wisely decided to let Swiss Bank split.

Office location is determined by many factors: access to skilled labor, the quality of the transportation infrastructure, the safety of the community, as well as the cost of space. Tax

breaks - the easiest and quickest way for politicians to lure businesses - have a legitimate role, but not if they forestall genuine tax reform or create precedents that undermine the entire community. Without an adequate tax base, there is no way to pay for services such as police, schools and parks that make a city attractive to people and industry.

The Giuliani administration, facing a severe budget crisis, recognized that it could not simultaneously cut public services and match the package Connecticut was dangling at Swiss Bank. Moreover, Swiss Bank, with a new business strategy stemming from its acquisition of the Chicago - based O'Connor Partners that emphasizes computer-based global derivatives rather than commercial lending, had become less dependent on Manhattan's business community. In fact, the bank's mission had changed so much, it no longer needed or wanted to be in New York City.

With the departure of Swiss Bank, the mayor is recognizing that the most effective way to retain and attract jobs is not with special deals that favor large employers, but by creating the conditions that make a city safe and its work force productive. Ironically, the city's new approach to economic development may also be the most intelligent strategy in an era when small and medium-sized firms will increasingly be the city's engines of job creation. By applying the same toughness to corporations threatening to move out that he has used in bargaining with the unions and the City Council, Mayor Giuliani is sending a message that there are limits to municipal philanthropy.

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