

States waging a new 'war'

Campaigns by Alabama, New York for industry reflect differences in strength

By Dan Freedman, September 5, 2015



Dr. Alain Kaloyeros, founding President and CEO of SUNY Polytechnic Institute, left, and Michael Liehr, Executive Vice President of Innovation and Technology, Colleges of Nanoscale Science and Engineering, SUNY Polytechnic Institute, right, brief Vice President Joe Biden, center, New York Governor Andrew Cuomo, second from right, and Under secretary Frank Kendall, as they visit SUNY Poly Canal Ponds during the official announcement of the Department of Defense awarding a \$110 million to help create the new American Institute for Manufacturing Integrated Photonics Monday, July 27, 2015, in Rochester, NY. (Shawn Dowd/Democrat & Chronicle via AP) ORG XMIT: NYROD102

Washington

In its ubiquitous television ads, the START-UP NY program proclaims: "The 'new' New York is open. ... Open to ambition; open to bold ideas," through 10-year tax-free partnerships with colleges or universities.

But down South, Alabama's come-on to firms has its own catchphrase: "Taking Care of Business."

One Alabama Department of Commerce print ad features an Airbus jet and a pair of military helicopters over the caption, "Great Companies Land here. And then they really take off."

In what Princeton, N.J.-business site-selection consultant John Boyd calls the "new War Between the States," 19th-century weaponry has been replaced by tax incentives, hubs and clusters, "competitive wages" and technologies with futuristic names like fluidics and photovoltaics.

Riding on the outcome are thousands of jobs and the economic leveraging effect of new industries.

The North's superior industrial base ultimately overwhelmed the South in the Civil War, but the new battle's dynamics would seem to favor Alabama and other development-minded states. For example, while both Alabama and New York offer incentives, Alabama has low sales and income tax rates and a right-to-work law which thwarts union organizing that New York cannot match.

The competition in some ways pits the conservative Republican vision of economic growth through minimalist government against the liberal Democrats' activist government collaborating with colleges and universities to make its brainpower concentrations irresistible to high-tech industries regardless of taxes, regulations and unions.

Business Facilities magazine this year ranked Alabama No. 2 in auto manufacturing and workforce development. New York didn't make the cut. The magazine ranked New York No. 10 in economic growth and 9 in both infrastructure and manufacturing — lists that didn't include Alabama.

"It's more of a cultural model than an economic model," Alabama Secretary of Commerce Greg Canfield said. "Culturally, we are a state that tends to be welcoming and pro-business. We like having new neighbors."

While Alabama has been at the economic development game for a century or more, New York is late to the party.

Gov. Andrew Cuomo took the wraps off START-UP NY in 2013. In May, the program was rocked by an audit from state Comptroller Thomas DiNapoli's office.

Empire State Development Corp., which oversees START-UP NY, committed \$45.1 million to advertise the program between October 2013 and October 2014. Its efforts yielded pledges from 41 businesses to create 1,750 jobs over the next five years for a marketing cost of over \$25,000 per job, the report said.

Howard Zemsky, ESDC's president and CEO, condemned the audit's criticisms as "misplaced" and "tremendously unfair."



Gov. Andrew Cuomo, right, and Albany Nanocollege CEO Alain Kaloyeros speak with reporters following the announcement of a new \$500 million power electronics manufacturing consortium in the Capital Region at GE Global Research Tuesday July 15, 2014, in Niskayuna, NY.

"I couldn't be happier with economic activity we've generated," he said.

Regardless of approaches to economic development, the states have had their difficulties. Manufacturing jobs in both states have nosedived, particularly since the Great Recession of 2007-08. Manufacturing jobs fell 35 percent in Alabama between June 1995 and June 2015 compared to 52 percent in New York, which lost nearly 500,000 jobs.

Yet for their competing incentives and differing hardships, both sides of the Mason-Dixon line are judged by Boyd on his clients' business requirements.

"For projects that require premier intellectual capital, the Northeast has the advantage," he said. "For more cost-conscious projects, we recommend the South."

Ultimately, the states are traveling separate paths that grow out of their unique histories.

Alabama's model is outside-in. It has been attracting industries — from steel to textiles — practically since Reconstruction. New York's model is inside-out. Heavy concentrations of

research and development at universities and dollops of state funding are aimed at attracting advanced-manufacturing industries and their high-paying jobs.

New York officials talk about "human capital" (i.e. education) as a strength.

New York in 2013 was ranked No. 1 in K-12 education spending at \$19,818 per pupil. Alabama was No. 39 at \$8,755 per pupil, according to federal data. New York also spent more than twice as much on higher education — \$10.1 billion, compared with \$4.8 billion for Alabama.

The so-called innovation economy has been a hallmark of New York at least since the early 19th century, when Robert Fulton pioneered the steamboat up the Hudson River. The Capital Region's most recent entry in this realm is nanotechnology, embodied by the SUNY Polytechnic Institute.

"The competition we have is not with Southern states, but China and Korea," said SUNY Poly CEO Alain Kaloyeros.

More than \$2.5 billion in state seed money has begotten \$35 billion in private investment for a public-private enterprise with local and regional impact estimated at \$19.8 billion or more. The first SUNY nanotech building has morphed into a sprawling enterprise of 4,000 employees — 3,100 from private-sector businesses and 900 on the SUNY Poly payroll.

The brainpower-concentration approach has yielded a roster of corporate lab to fab partners, from Sematech to IBM to GlobalFoundries, whose Malta plant employs more than 3,000 — about a third of them technicians with associate degrees or technical training; two-thirds are engineers with degrees ranging from bachelor's to doctorates.

"At end of the day you cannot argue with success," Kaloyeros said. "The model works."

Kaloyeros compares most development models to the Kremlin — closed-up entities that hire workers and make a profit without intellectual cross-pollination. Born and raised in Lebanon to a Greek father, he prefers what he terms the Acropolis model — accessible and open to the cross-breeze of government, industry and private sector all at once.

But in some ways, the New York model more closely resembles the Kremlin because it involves a large measure of state control through the SUNY system. Companies wanting to enter Albany's nanotech orbit lease facilities from SUNY Poly and share the entire lab-to-fab process. SUNY gets a cut of any proceeds from commercialized products from joint R&D.

"We leverage each other's financial resources and intellectual capabilities," Kaloyeros said. "It's like a bed-and-breakfast, only it also includes lunch and dinner."

Cuomo deputized Kaloyeros as the Johnny Appleseed of advanced manufacturing, spreading it to Rochester (photovoltaics), Utica (the Computer Chip Commercialization Center, or Quad C) and Buffalo (high-tech manufacturing complex, and information and medical-innovation hubs).

In July, Vice President Joe Biden traveled to Rochester to unveil the Manufacturing Innovation Institute for Integrated Photonics, with \$610 million in public-private investment including \$110 million in federal money.

Cuomo, Zemsky and Kaloyeros have proved themselves adroit at painting a hopeful future for upstate, a region long on economic disappointment and short on optimism. Yet critics feel they've seen this before: unfulfilled promises to uplift an economy rooted in the 19th- and 20th-centuries. And the perception of New York as a high-tax, high-regulation business-hostile state continues to be part of the negative legacy.

"I'm not going to sugarcoat it; New York has long way to go to be more friendly to entrepreneurs," said Donald Siegel, dean of the University at Albany School of Business. "I don't know if we can go to the extremes of Southern states, but we still have more regulation than other states in the Northeast."

Alabama ranked 28th in the Tax Foundation's 2015 State Business Tax Climate Index. New York was 49th. "We made a mistake in past decades of being arrogant, and not as competitive as we should have been," Zemsky said. "As often happens when you raise prices on customers, you lose them."

Canfield acknowledges his state's blemishes and professes a grudging respect for his opponent. But he rejects any suggestion that Alabama eschews advanced manufacturing.

"We're not ceding ground to them at all," said Canfield, citing business partnerships with Alabama universities in 3-D printing and development of cancer-fighting drugs.

So which state holds the future of economic development?

Neither, according to Boyd.

Nevada, he said, combines the best of both North and South — low taxes and regulation, lots of open land, moderation on social issues and a frontier spirit.

"You have proximity to China via rail links to the Port of Oakland. That's why Tesla is there," Boyd said. " ... Seventy percent of millennials live in China, and they can't get enough of U.S.-branded products."