Commerce and Tourism Committee
Room 327, House Office Building
Lansing, MI 48933

Jan. 25, 2022

Dear Chair Wendzel, Vice Chairs Roth and Cambensy, and Members of the Committee,

My name is Pat Garofalo and I am the director of state and local policy for the American Economic Liberties Project, an organization dedicated to reducing the power and influence corporations have over our economy and democracy. I write in opposition to HB 5425 and HB 5426.

States and cities across the country spend tens of billions of dollars annually on corporate tax incentive programs such as the Michigan Employment Opportunity Program proposed in the bills before you today. Yet all that taxpayer money buys very little: Extensive research has shown that corporate tax incentives do not cause sustained job, wage, or economic growth.[1] Instead, they increase corruption[2], siphon resources away from valuable government services that increase quality of life, worsen income inequality[3], and disadvantage the local businesses that help communities thrive.[4]

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[1] See: Garofalo, Pat, "The Billionaire Boondoggle: How Our Politicians Let Corporations and Bigwigs Steal Our Money and Jobs," Thomas Dunne Books, March 2019; LeRoy, Greg, "The Great American Jobs Scam: Corporate Tax Dodging and the Myth of Job Creation," Berrett-Koehler Publishers July 2005; Florida, Richard, "The Uselessness of Economic Development Incentives," CityLab, Dec. 7, 2012 https://www.bloomberg.com/news/articles/2012-12-07/the-uselessness-of-economic-development-incentives; and Slattery, Cailin, and Owen Zidar, "Evaluating State and Local Business Tax Incentives," Journal of Economic Perspectives 34.2. Spring 2020, among many works. https://scholar.princeton.edu/zidar/publications/evaluating-state-and-local-business-tax-incentives

[2] Felix, Alison and James R. Hines Jr., "Who Offers Tax-Based Business Development Incentives?," The Federal Reserve Bank of Kansas City Economic Research Department, Nov. 2011, https://www.kansascityfed.org/publicat/reswkpap/pdf/rwp11-05.pdf

[3] Maciag, Mike, "Big Business Tax Breaks May Worsen Income Inequality," Governing, May, 2018 https://www.governing.com/archive/gov-tax-breaks-cities-affluent.html; Parilla, Joseph, and Sifan Liu, "Examining the local value of economic development incentives: Evidence from four US cities," Brookings Institution, March 2018 https://www.brookings.edu/research/examining-the-local-value-of-economic-development-incentives/

[4] Garofalo, Pat, "How Corporate Subsidies Sink Small Businesses," Boondoggle, Sept. 16, 2021 https://boondoggle.substack.com/p/how-corporate-subsidies-sink-small

There is a growing bipartisan consensus across the country that corporate incentive programs simply do not work as advertised, and a growing realization that those who claim states need to be in the incentive game to be economically competitive are peddling a myth. As the Mayor of Shelby County, Tennessee, which has had several high-profile incentive deals backfire, put it recently, the theory behind corporate tax incentives is "just made up stuff. It's a made-up theory about how the economy works."[5] Indeed, the vast majority of incentive deals do not actually sway the corporate location decision in question.[6] They simply waste money that could have been spent more effectively on any other state priority.

Michigan has tried major incentive programs multiple times in recent years, with negative results. This particular incarnation, like the "Good Jobs for Michigan" program before it, diverts employee taxes away from the state and back to her employer, creating a perverse situation in which taxes that should be benefiting the general welfare of all Michiganders instead simply fund a particular corporation. As several analysts have found, there's scant evidence that programs requiring workers to "pay taxes to the boss" in this manner result in sustained economic benefits.[7]

"Good Jobs For Michigan" would have been even worse if it had achieved its main aim: Bringing in the Foxconn plant that ultimately went to Wisconsin. As Wisconsin continues to struggle with Foxconn's broken promises and underwhelming investment, Michiganders should consider themselves lucky to have avoided "winning" that competition. But there's no guarantee that

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[5] Sells, Toby, "Mayor Harris Goes Hard on Local Tax Breaks," Memphis Flyer, Sept. 13, 2021 https://www.memphisflyer.com/mayor-harris-goes-hard-on-local-tax-breaks

[6] Bartik, Timothy J., "'But For' Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?" Upjohn Institute Working Paper 18-289. July 1, 2018 https://doi.org/10.17848/wp18-289

[7] Mattera, Phillip, Kasia Tarczynska, Leigh McIlvaine, Thomas Cafcas and Greg LeRoy, "Paying Taxes to the Boss: How a Growing Number of States Subsidize Companies With the Withholding Taxes of Workers," April 2012 https://www.goodjobsfirst.org/sites/default/files/docs/pdf/taxestotheboss.pdf and LaFaive, Michael, "Lawmakers Should Let Good Jobs for Michigan Expire," Makinac Center for Public Policy, Oct. 17, 2019 https://www.mackinac.org/lawmakers-should-let-good-jobs-for-michigan-should-expire

future incentive programs like the one under consideration today won't create a similar boondoggle in Michigan, harming local communities, upending local finances, and disadvantaging local businesses, who see the state subsidizing their dominant competitors rather than creating the economic conditions that would allow them to thrive.

Instead of perpetuating decades of failed economic development policy that has resulted in a disastrous competition between states and cities and entrenched corporate dominance, Michigan should focus on the sort of policies that foster real growth and innovation: Investments in human capital and quality of life benefits for working Michiganders and their families. Giving Michiganders the security and family supports to start their own businesses would pay far larger dividends than attempting to launder a jobs program through another large corporation.

Michigan should also do what it can to stop the race to the bottom on corporate subsidies by creating an interstate compact with likeminded states to phase them out, as others in this body have suggested. I strongly urge the committee to vote down HB 4525 and 5426 and turn its attention to better policies that will help more residents of your state.

Thank you for your time and consideration,

Pat Garofalo
Director of State and Local Policy
American Economic Liberties Project