

Joint Committee on Economic Development and Emerging Technologies
General Court of the Commonwealth of Massachusetts
24 Beacon Street
Boston, MA 02133

The logo for the American Economic Liberties Project, featuring the text "AMERICAN ECONOMIC LIBERTIES PROJECT" in white, all-caps, sans-serif font on a dark blue rectangular background. The background of the entire page has a light blue wavy pattern.

Oct. 5, 2021

**Testimony in Support of H 528 –
Pat Garofalo, Director of State and Local Policy
American Economic Liberties Project**

Thank you Chairs Lesser and Parisella, Vice Chairs Brady and Vargas, and other members of the committee. And thank you Rep. Mark, for introducing this bill. My name is Pat Garofalo and I am director of state and local policy at the American Economic Liberties Project, a progressive think tank dedicated to reducing the influence dominant corporations have over our economy and democracy.

I write today in support of H 528, The Agreement for Best Practices in Economic Development Act, which would form an interstate compact to curb and eventually eliminate the use of company-specific corporate tax incentives. Creating a legally-binding agreement between Massachusetts and like-minded states to abandon decades of failed economic development strategies will help save Massachusetts taxpayers money, level the playing field for your state's small businesses, improve local accountability and democracy, and allow elected officials to focus state resources on policies that boost overall economic growth and quality of life.¹

States across the country spend tens of billions of dollars on company-specific corporate tax incentives annually. Massachusetts, according to disclosed records, has spent nearly \$2 billion on such incentives, most of that since 2014.²

According to the vast bulk of the research done on this policy area, that money is buying next to nothing, as corporate tax incentives have a negligible effect on economic growth, job creation, or incomes.³

¹ Garofalo, Pat, "What You Need to Know About the Interstate Compact Against Corporate Tax Giveaways," American Economic Liberties Project, April 26, 2021 https://www.economicliberties.us/our-work/what-you-need-to-know-about-the-interstate-compact-against-corporate-tax-giveaways/#_ftn11

² Good Jobs First, Subsidy Tracker, Accessed March 1, 2021

³ 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>

There are several reasons why that is the case, but one of the most important is that the vast majority of the time, incentives don't entice corporate leaders to do anything they wouldn't have done anyway, because location decisions are based on several other business factors, such as workforce requirements, supply chains, access to transportation and other infrastructure, and other local laws.

According to Tim Bartik of the Upjohn Institute, between 75 and 98 percent of granted incentives have no bearing on where a firm ultimately chooses to locate.⁴ Massachusetts learned this when General Electric decided to move a large facility from Connecticut to Boston and then changed its mind and downgraded its plans, despite tens of millions of dollars in state incentives.⁵ States across the country are competing against each other in a game that is rigged so that none of them can win.

Why, then, do incentives persist? Because there is a prisoner's dilemma at work: No officeholder wants to appear to be doing nothing for their constituents, while those in the next state over are announcing deal after deal, even if the promised benefits of those deals don't actually materialize once the ink is dry. Research has shown that governors' use of incentives increases during years in which they are up for re-election, because there is political capital to be gained by engaging in corporate incentives, even if actual capital doesn't follow in their wake.⁶

The interstate compact solves this issue by having states multi-laterally disarm, together. Because the compact's terms only apply to other compact states, there's no danger of Massachusetts going it alone – which is key, because some of the most profligate users of incentives are nearby, trying to poach Massachusetts businesses.

Kansas and Missouri implemented a version of this compact in 2019 in order to prevent corporations from moving across the greater Kansas City metro area — which straddles the border — in order to claim incentives. That solution deserves to go national, with more robust enforcement mechanisms.

Instituting an incentive cease-fire was a good idea before the pandemic struck. But it's an even better one now. The pandemic has disproportionately harmed small businesses, while corporate incentives disproportionately go to larger companies.⁷ States are paying for the privilege of putting their own small businesses at a disadvantage vis-a-vis larger, national and multinational chains and conglomerates.

By facilitating information sharing and the development of best practices, the compact can also foster the introduction of transparency and accountability to a policy area desperately lacking

⁴ 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>

⁵ Dobush, Grace, "GE's Decision to Scrap Boston HQ Shows Corporate Tax Incentives Don't Work," Fortune, Feb. 15, 2019 <https://fortune.com/2019/02/15/general-electric-boston-tax-incentives/>

⁶ Slattery and Zidar, "Evaluating State and Local Business Tax Incentives."

⁷ LeRoy, Greg, Carolyn Fryberger, Kasia Tarczyska, Thomas Cafcas, Elizabeth Bird and Philip Mattera, "Shortchanging Small Business: How Big Businesses Dominate State Economic Development Incentives," Good Jobs First, October 2015 <https://www.goodjobsfirst.org/sites/default/files/docs/pdf/shortchanging.pdf>

both. Massachusetts has taken some important steps in recent years to address this problem, but without similar measures being pursued across state lines, there's only so much good they can do.

With at least 14 other states having introduced versions of this same legislation, the moment is now to begin to make the compact a reality.

There will be pushback to this idea, of course. Business leaders and trade associations always say that cutting corporate incentives will lead to job losses. But there's no evidence that's true. States and cities including Rhode Island, Washington, D.C. and New York City have cut or reformed their programs or denied certain awards to particular corporations in recent years, and corporations expanded in those places anyway because doing so was good business.⁸

Ideally, the debate about economic development should be about what builds the best overall economic climate: That means trying to figure out the optimal levels of overall taxation, the right amount of social spending, the proper education and infrastructure investments, and the best policies for promoting quality of life and workplace protections. Instituting the interstate compact would help move the debate there, instead of the problematic place in which it resides today.

Massachusetts should be the first to approve the compact, and lead the charge toward a brighter economic future, not just for Massachusetts' residents, but for all Americans.

⁸ Anderson, Patrick, "Cost to R.I. for corporate tax breaks shrinks," Providence Journal, Jan. 26, 2018 <https://www.providencejournal.com/news/20180126/cost-to-ri-for-corporate-tax-breaks-shrinks>; Feiner, Lauren, "Amazon will open a new office in New York, less than a year after dropping plans for HQ2," CNBC, Dec. 9, 2019 <https://www.cnbc.com/2019/12/09/amazon-to-lease-space-in-manhattan-less-than-a-year-after-hq2-fallout.html>