Maine Center for Economic Policy

Testimony neither for nor against LD 390, Part S

Good afternoon Sen. Dow, Rep. Tipping, and distinguished members of the Joint Committee on Taxation. I’m Sarah Austin, a policy analyst with the Maine Center for Economic Policy, and I’m here to testify neither for nor against Part S of LD 390.

Allocating state resources is a matter of priorities. And that statement applies no differently to tax expenditures. Like other spending, it is important to ensure that resources are spent in a way that is effective, responsible, and equitable.

On the matter of effectiveness, this committee will soon have access to data driven assessments of three business tax expenditure programs continued under this section of the governor’s budget. OPEGA will release reviews of New Markets Tax Credit, Pine Tree Development Zone Tax Credits, and Employment Tax Increment Financing that will give this committee insight on whether these programs are successful in achieving their employment and other development goals.

Together, these programs are projected to cost over $70 million over the biennium. [i] I urge the committee to not only consider whether these programs have produced the desired output, but also consider what economic investments the state is forgoing in order to fund these tax expenditures and whether there are more productive uses for these dollars that could have larger positive economic impacts.

For example, the ‘bang for the buck’ of these tax expenditures should be measured against other investments in education, job training, and infrastructure investments, all of which yield sizable positive impacts on economic activity.[ii]

Lastly, equity matters in terms of who benefits. Those who benefit under an economic development policy should include Maine families who are most harmed by depressed economic conditions. Whether this is through new jobs or improved local economic conditions, these programs should be able to measurably show that they are helping lift up Maine families left behind by economic recession and industry upheaval.

As the tax expenditure evaluations become available, I urge the committee to evaluate these programs and to change or eliminate any that are not effective, responsible, and equitable.

End Notes:

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[i] Most recent Maine Tax Expenditure Report projects their cost to be $34.3 million in 2018 and $35.9 million in 2019.

[ii] **On Education**: "The connection between education and income is strong... A more educated individual is more likely to participate in the job market, to have a job, to work more hours, and to be paid more, and less likely to be unemployed (French and Fisher 2009). But the benefits of education go beyond the economic returns. Higher levels of education also correspond to improved health and lower rates of mortality, and lower rates of crime (Grossman and Kaestner 1997; Lleras-Muney 2005; Lochner and Moretti 2004)."
See Economic Policy Institute, *A Well-Educated Workforce Is Key to State Prosperity*
http://www.epi.org/publication/states-education-productivity-growth-foundations/;
On Job Training: "Research suggests that well-run customized training programs can induce new business activity. Research by Hoyt, Jepsen, and Troske (2008) examines Kentucky's customized job training program, which they find is ten to twenty-five times as effective in encouraging county employment growth as are business tax incentives. Research by Holzer, Block, Cheatham, and Knott (1993) examines Michigan's customized training grant program to small manufacturers, finding that the training sufficiently reduced business "scrappage rates"— the rate at which manufacturing output had to be scrapped because it did not meet quality standards—to more than cover program costs within one year. Holzer and colleagues' results use a relatively small sample of firms (71 to 107 firms, depending on the specification), and are not statistically significant in all specifications. However, even their conservative estimates show sizable benefits that exceed the programs' modest costs."
See Hamilton Project, *Bringing Jobs to People: How Federal Policy Can Target Job Creation for Economically Distressed Areas*
http://www.hamiltonproject.org/assets/legacy/files/downloads_and_links/FinalBartik_DiscussPaper_Oct2010.pdf;
On Infrastructure: "Economists prepared a number of estimates of the impact of an additional dollar of infrastructure spending on GDP growth in 2008 during the debate over a federal fiscal stimulus package. These estimates found that in the depths of the Great Recession, a dollar in infrastructure investment would result in $1.50 in GDP growth, according to the Council of Economic Advisers. Similarly, Moody's, a leading private econometric firm, estimated the effect at $1.60. The Congressional Budget Office found that that the impact ranged from a low estimate of $1.00 to 2.50."
See Center on Budget and Policy Priorities, *It's Time for States to Invest in Infrastructure*
http://www.cbpp.org/research/state-budget-and-tax/its-time-for-states-to-invest-in-infrastructure