

Economic and Small Business Development Committee
Room 1200, Binsfeld Office Building
201 Townsend Street
Lansing, MI 48933

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 light blue wavy lines.

Sept. 30, 2021

Dear Chairman Horn 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, a progressive think tank dedicated to reducing the power and influence corporations have over our economy and democracy. I write in opposition to SB 615 and SB 623.

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 corruption², siphon resources away from valuable government services that increase quality of life, worsen income inequality³, and disadvantage the local businesses that help communities thrive.⁴

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>

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. It’s a made-up theory about ‘if we do this, they’ll go somewhere else instead.’”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 future incentive programs won’t create a similar boondoggle in Michigan, harming local communities and upending local finances.

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>

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. SB 0524/HB 4971 would do just that, and put Michigan at the forefront of a burgeoning movement to eliminate corporate tax giveaways and dispel the myth that they are a necessary part of economic development policy. I strongly urge the committee to vote down SB 615 and SB 623 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