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THE MARYLAND HOUSE OF DELEGATES
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Testimony in Support of HB 525
Phase Out Company Giveaways Act of 2020

Testimony by Delegate Vaughn Stewart
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Corporate Tax Giveaways

All states provide government support for businesses through the use of subsidies. One common example is the use of grant and loan funds targeted to specific businesses, which are justified based on the need to compete with other states offering the same subsidies. For example, Maryland recently provided millions of taxpayer dollars to Marriott International and Northrop Grumman Corporation after both of those companies threatened to jettison our state. Supporters of both deals remarked that losing the two companies to neighboring states would be even worse than the enormous payouts.

Unfortunately, there is broad consensus among academic economists that these programs are wasteful at best and actively damaging to a state's economy at worst. Two Iowa professors conducted the most comprehensive analysis on this topic. After reviewing a wide body of articles and cost-benefit analyses, they concluded that "there are very good reasons--theoretical, empirical, and practical--to believe that economic development incentives have little or no impact on firm location and investment decisions." They added, "The most fundamental problem is that many public officials appear to believe that they can influence the course of their state economies through incentives and subsidies to a degree far beyond anything supported by even the most optimistic evidence. We need to begin by lowering policymakers' expectations about their ability to micromanage economic growth and making the case instead for . . . providing foundations for growth through sound fiscal practices, quality public infrastructure, and good education systems."

What the Bill Does

This race to the bottom is therefore a classic example of a prisoner's dilemma. Each state would be better off with the outcome in which every state stopped offering these subsidies, but nobody is willing to make the first move for fear that they would be worse off if other states do not follow suit. **The solution is HB525, which will enter Maryland into an interstate compact to limit the use of corporate tax subsidies.** The same bill has been filed in more than 10 states, with sponsors in both major political parties.

There are two main provisions of the agreement. First, member states agree to end the practice of offering company-specific tax breaks to a facility located in another member state as an inducement for the company to move. Essentially, member states agree to stop poaching companies from other member states. Second, member states participate in a national commission that will propose amendments to and enforce the existing agreement.

It's important to note that this proposed compact does not require congressional consent. Legal precedent has established that congressional consent is not required under Article I, Section 10 if an interstate compact does not impact the delegated powers of the federal government. This interstate compact would avoid that pitfall because it would only exercise the member states' own sovereign control over taxing and spending policy.

Why the Committee Should Vote Favorably

This cease-fire agreement will codify a discontinuation of one type of corporate welfare: subsidies meant to poach companies from other states. Because Maryland has historically offered fewer subsidies than most states, we stand to benefit disproportionately. While Maryland has rarely attempted to poach companies from other states, we have, even in the recent past, approved large packages to companies in a response to other states' poaching attempts. Entering into this nascent compact will offer Maryland taxpayers some protection against similar scenarios in the future, and allow us to compete on a fairer playing field for good-paying jobs. Passing HB525 will also make our state a national leader in this growing movement for smarter economic development policy.

Corporate giveaways have long posed a policy problem. These subsidies may be politically popular, but they are wasteful and harmful to broad economic growth. This interstate compact offers a unique way for states to work together toward a permanent solution, and to reverse a decades-long race to the bottom. I urge a favorable report.